

Martinsville
A CITY WITHOUT LIMITS



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004**

CITY OF MARTINSVILLE, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2004

PREPARED BY:

W. W. Bartlett, Interim City Manager

CITY OF MARTINSVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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CITY OF MARTINSVILLE, VIRGINIA

City Council

M. Gene Teague, Mayor
Terry L. Roop, Vice Mayor
Joseph R. Cobbe

Bruce H. T. Dallas

J. Ronald Ferrill

School Board

Joseph E. Finley, Chairman
Lynn Ward

Nancy Baker
Cynthia W. Ingram

James H. Johnson

Industrial Development Authority

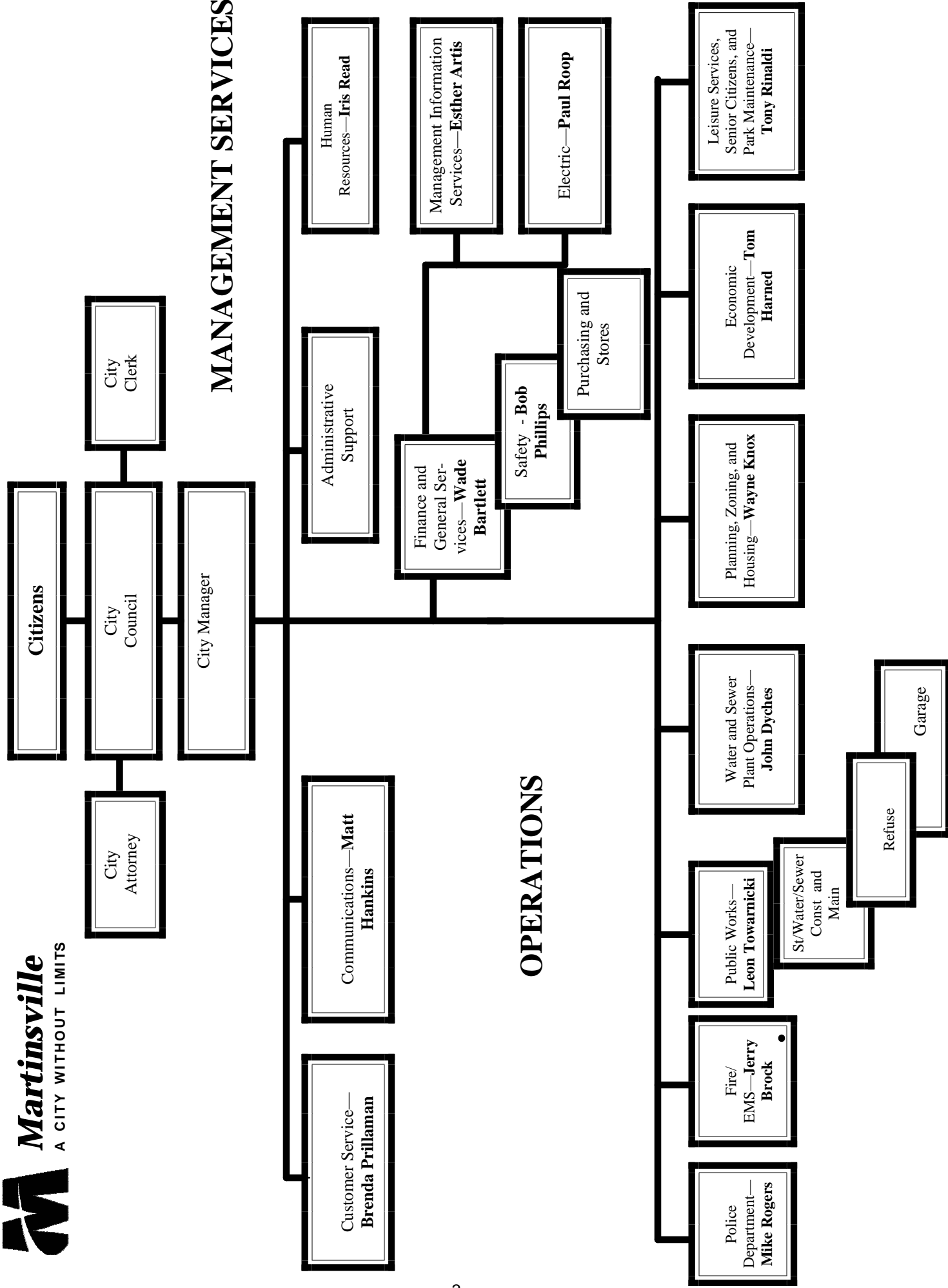
Thomas E. Hall, Chairman
Vern Berry

Sandy T. Carter
Agnes Mobile Hairston

Kevin B. Laine
Allan McClain

Other Officials

Interim City Manager W. W. Bartlett
Clerk of the Circuit Court Ashby R. Pritchett
City Attorney Eric H. Monday
Commissioner of the Revenue Ruth Easley
Treasurer Pat S. Conrad
Police Chief Michael E. Rogers
Superintendent of Schools Ira R. Trollinger
Clerk of the School Board Lynda W. Pulliam
Director of Finance and General Services W. W. Bartlett
Director of Social Services Joyce Martin Grogan
Sheriff..... Steve M. Draper
Commonwealth's Attorney..... Joan Ziglar
Public Works Department Director..... Leon E. Towarnicki
Water Resources Department Director..... John H. Dyches
Chief of Electric Operation..... Paul R. Roop
Purchasing Agent..... Karen H. Mays
Fire Chief..... Jerry W. Brock



December 21, 2004

**To the Honorable Members of the City Council
To the Citizens of the City of Martinsville, Virginia
City of Martinsville, Virginia**

We are pleased to present the Comprehensive Annual Financial Report of the City of Martinsville, Virginia, (the "City"), for the fiscal year ended June 30, 2004. This report was prepared by the City's Department of Finance. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The management of the City is responsible for establishing and maintaining an internal control structure to ensure the protection of City assets. In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls. In addition to the internal accounting controls noted above, the City also maintains budgetary controls. These budgetary controls ensure compliance with provisions embodied in the annual appropriated budget approved by the City Council. Activities of the City's governmental funds are included in the annual appropriated budget.

As a recipient of federal and state financial assistance, the City is also responsible for ensuring that adequate internal controls are in place to ensure and document compliance with applicable laws and regulations. The audit for the fiscal year ended June 30, 2004 has been completed and no material internal control weaknesses or material violations of laws and regulations have been identified.

The City adopts an annual budget by July 1 of each year as required by 15.2-2503, Code of Virginia of 1950, as amended. A budget is not required for fiduciary funds.

When necessary, the City Council approves amendments to the adopted budget in accordance with 15.2-2507, Code of Virginia of 1950, as amended. Budgetary compliance is monitored and reported at the fund level. The budget is implemented through appropriations that the Council makes annually, with supplemental appropriations made as required. These appropriations, except those to incur mandated expenditures, may be greater or less than contemplated in the budget.

THE REPORTING ENTITY AND ITS SERVICES

The City of Martinsville's report includes all funds of the "primary government." In Virginia, cities and counties are distinct units of government; therefore, the City is responsible for providing all services normally provided by a local government. These services include public safety, social services, recreation and cultural activities and community development. Additionally, the City operates an electric generation and distribution system, water and wastewater utility system and a landfill. For financial reporting purposes and in accordance with the Governmental Accounting Standards Board (GASB), Statement 14, "The Financial Reporting Entity," the City has identified one discrete component unit and one blended component unit. The GASB statement establishes the criteria used in making this determination and identifies each as a blended component unit or discretely presented component unit. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations, and therefore are included as part of the primary government. The City's blended component unit is the Martinsville Industrial Development Authority. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of this primary government. Therefore, the City School Board is reported in a discrete presentation. Based on GASB Statement 14 criteria, the School Board is a legally separate organization providing educational services to the public whose board is appointed by City Council and is fiscally dependent on the local government.

The financial statements for the Blue Ridge Regional Library and the Henry-Martinsville Social Services Board are not included in the City report. Boards separate from, and independent of, the City Council administers these organizations.

LOCAL ECONOMY

Martinsville encompasses a land area of 11 square miles. The City is located in the Southside furniture/textile belt, equidistant between Roanoke, Virginia and Greensboro, North Carolina. Two U.S. primary (57 & 58) and one State primary route (220) traverse the City. For decades the City's economy was dominated by the manufacturing associated with those two industries. The evolution of these businesses has moved a large portion of the manufacturing process overseas. This caused several local plants to close and others to downsize. The end result has been the complete elimination of textiles in the local economy and a significant reduction in the furniture industry. The remaining manufacturing companies located in the City appear to have weathered this trend and in fact some are expanding operations and increasing their workforce.

Based on available economic data, trends for the local economy have continued to show strength. The local unemployment rate was 13.9% at June 30, 2004, which is an improvement over the rate of 16.1% at June 30, 2003. The local unemployment rate compares unfavorably to the state and national rate of 4.3% and 6.5% respectively.

LOCAL ECONOMY: (CONTINUED)

The City has responded to the economic declines by implementing a proactive economic development program. These efforts are beginning to yield results. Over the last year the City has been in the top quarter of all localities in the Commonwealth in job creation when measured by the number of jobs created per capita. Economic development efforts were successful in luring the City's first defense related industry into the community, further diversifying the local economy. Significant expansion of investment and jobs in medical, retail, and call centers have occurred in the last three years. Martinsville's economy is more diversified than it has ever been with strong manufacturing, retail trade, medical, and governmental sectors. Assessed value of taxable property has increased by 8.9% over the last two years easily beating the rate of inflation. In summary business indicators have stabilized and are beginning to recover.

MAJOR INITIATIVES

For fiscal year 2004: Following the goals and objectives established by the City of Martinsville Council, and with the assistance and guidance of the City Manager, City staff and agencies implemented and continued a number of specific "**programs**" designed to provide City residents with cost efficient government while enhancing their home and employment environment.

Major initiatives begun, continued, or completed during this fiscal year are:

- Regional Economic Development Agreements
- Signed agreements with Henry County to provide water and treat wastewater
- Installation of a City owned/operated phone system
- Transportation system improvements

Regional Economic Development Agreements

The City entered into an agreement with Henry County to develop 5 lots containing a total of 239 acres in the County's industrial park. The majority of this project will be paid with Grants from the Federal and State government. The City's cost for this project will be \$232,167. When completed the lots will have access to utilities to include fiber optic cable and road frontage and the lots will be graded and ready to build on. In exchange for helping pay for this project the City will receive one-third of all property and consumer utility taxes generated from any development on the lots. Due to the moratorium on annexation by Cities in the Commonwealth the City had no options to grow. This agreement provides the City with additional land for development while at the same time, sharing the cost to make ready for sale lots in an established industrial park.

Additionally, the City has entered into an economic development initiative with the County to combine and greatly expand the development efforts of our two communities. In concert with the local Chamber of Commerce and a local foundation the economic development effort of the region will be financed with an annual budget of \$1.9M, more than double the amount the City and County have expended on these efforts in the past. This new office has a holistic approach to economic development. Instead of merely focusing on recruitment of new business this office will have significant resources and staff to work with existing businesses on retention and expansion, develop projects of community revitalization, manage tourism programs, and foster small business development.

MAJOR INITIATIVES: (CONTINUED)

Water/Wastewater. Henry County surrounds the City and has experienced the same downsizing of its textile and furniture industries. Both the City and County's water and wastewater systems had considerable excess capacity after several plants ceased production. Recognizing the under utilization of both systems the City and County signed agreements whereby the City's wastewater treatment plant would treat all County waste and the City's water plant would provide additional water to County residents. The water portion of this project has been completed and the City's water revenues increased by \$132,000 annually. Almost 70% of the wastewater project is completed. When finished the City's wastewater revenues will increase by \$370,000 annually. Combined the City's utility revenues will increase by more than \$500,000 annually. The project was funded by various grants. In addition to the increased revenues the City obtained improvements to the wastewater plant of over \$500,000 and the water distribution system of approximately \$900,000 paid entirely from grant funds.

Phone System. The City completed the installation of a new City owned and operated phone system in August 2003. Utilizing the City's MINET system, a 48-fiber backbone overlaid with an OC12 optical network, and installing a City owned PBX system the City obtained higher-level phone service while saving almost \$250,000 annually. The cost of the entire project was less than \$477,000.

Transportation. The City in conjunction with the state continued progress on the improvements to the Liberty Street/Clearview Drive intersection. This intersection is the primary entranceway to the City's Business Park. When completed, access to the Business Park will be greatly improved. This will increase the City's ability to attract additional tenants to the park. All necessary right of way acquisition has been completed and utilities moved. The Commonwealth will issue proposals for construction bids in the next six months.

Prospects for the Future. For the fiscal year 2004-2005, the City Council has approved a General Fund Budget of \$26,084,489. The fiscal year 2004-2005 plan maintains the real estate tax rate of \$0.94 per \$100 of assessed value. All other tax rates remain the same.

After years of under funding education the Commonwealth finally took steps to fund its portion of this important service. The Commonwealth provided a net increase in school funding to the City of slightly more than \$1.3M. While still not meeting its legal requirement it allowed the City to reduce the General Fund transfer to the Schools by almost \$700,000. The City expects this increased level of funding to continue into the future, thus easing the burden on the City's real estate tax rate.

Risk Management. The City of Martinsville has a risk management program which is committed to the logical, systematic and continuous identification of loss exposures for and to the City, its employees, its citizens and taxpayers, through the evaluation of risk in terms of severity and frequency probability and the application of sound loss control procedures. As a part of this commitment, the City has obtained third party coverage for all liability risk.

OTHER INFORMATION

Management's Discussion and Analysis. Generally accepted accounting principles require management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Martinsville's MD&A can be found immediately following the report of the independent auditors.

OTHER INFORMATION: (CONTINUED)

Independent Audit. The Commonwealth of Virginia requires an annual audit of the financial records and transactions of all departments of the City by independent certified public accountants selected by the City Council. The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Government and Non-Profit Organizations. Information related to this single audit, including the findings and recommendations, and auditors' reports on the internal control structure and compliance with laws and regulations, is contained in this report. These requirements have been complied with and the auditor's opinion is included in this report.

Certificate of Achievement. The City of Martinsville is submitting its June 30, 2004 financial report to the Government Finance Officers Association of the United States and Canada (GFOA) in hopes of receiving a Certificate for Excellence in Financial Reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report meets the requirements of the Government Finance Officers Association for a Certificate of Excellence in Financial Reporting.

Acknowledgments. The preparation of this report on a timely basis could not have been accomplished without the dedicated services of the entire Department of Finance. We would also like to thank the City Council for their interest and support in planning and conducting the financial operation of the City in a responsible and progressive manner. We would also like to thank the employees of the Treasurer's Office, Commissioner of the Revenue, Clerk's Office and numerous other offices for their assistance in preparing this report.

Respectfully submitted,

A handwritten signature in blue ink that reads "W W Bartlett". The signature is written in a cursive, flowing style.

*Interim City Manager/
Director of Financial and General Services*

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditor's Report

**To The Honorable Members of City Council
City of Martinsville
Martinsville, Virginia**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Martinsville Virginia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Specifications for Audits of Counties, Cities and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2004, on our consideration of the City of Martinsville, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and required supplementary information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Martinsville, Virginia, basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Martinsville, Virginia. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

September 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

To the Honorable Members of the City Council To the Citizens of the City of Martinsville

The management of the City of Martinsville, Virginia, presents this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. We encourage you to read this discussion and analysis in conjunction with the accompanying management letter on internal controls, the basic financial statements and the notes to the financial statements.

Financial Highlights

Government-wide Financial Statements

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$20,394,724 (total net assets). Of this amount \$5,841,222 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The Governmental activities net assets comprised only \$940,122 of the City's total, a decrease of \$406,547 in comparison with net assets of \$1,346,669 at June 30, 2003.
- Net assets of the City's various business type activities totaled \$19,454,602. This is an increase of \$1,614,128 from net assets reported on June 30, 2003.
- The School Board's assets exceeded its liabilities by \$4,617,208 an increase of \$510,868 when compared to the amount on June 30, 2003. However, \$3,565,334 of this amount reflects the School Board's net investment in capital assets leaving \$1,051,874 to meet ongoing obligations.

Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources in excess of expenditures and other uses by \$137,779 (Exhibit 4) after making direct contributions totaling \$6,862,967 to the School Board. An additional \$1,097,039 was expended from the Meals Tax Fund to retire School related debt. A total of \$7,960,006 was expended on School activities from Governmental Funds.

- At the close of the current fiscal year, the City's Governmental funds reported ending fund balances of \$1,063,021, which is an increase of \$137,779 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the unreserved fund balance for the general fund was \$659,306 or two and six tenths of a percent (2.6%) of total general fund expenditures.
- The combined long-term Governmental obligations decreased \$1,984,575 or 11.8% during the current fiscal year. Almost half of this decrease was the result of selling the shell building.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the City's basic financial statements. These financial statements are comprised of three (3) components:

1. Government-wide financial statements.
2. Fund financial statements.
3. Notes to the financial statements.

This report also contains other information to supplement the basic financial statements.

Government-wide financial statements - The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. Government-wide financial reporting consists of two statements: (1) The Statement of Net Assets and (2) The Statement of Activities.

The Statement of Net Assets (exhibit one) presents information on all of the City's assets and liabilities. The difference between assets and liabilities is reported as net assets. Net assets are presented in three categories: invested in capital assets net of related debt, restricted and unrestricted. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities (exhibit two) presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items which result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The Statement of Net Assets and The Statement of Activities are both divided into three types of activities:

1. Governmental Activities - Most of the City's basic services are reported in this column to include: Police, Fire, Courts, Recreation, Social Services, Economic Development, Community Development, Capital Projects, and General Administration. Governmental Activities are supported primarily by taxes, state and federal grants, and transfers from the City's Enterprise funds (Electric, Water, Sewer, and Refuse).
2. Business-Type Activities - The City has four business-type activities: Electric, Water, Sewer, and Refuse. The City recovers all or a significant portion of the costs associated with providing these services through user fees and charges to the customers receiving these services.
3. Component Unit - The City has one component unit, the Martinsville Public Schools. While the School System is a legally separate entity, the City of Martinsville is financially accountable for the School System. Financial information for the component unit is reported separately from the financial information presented for the primary government.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds can be placed in either of three (3) categories: governmental funds, proprietary funds, and fiduciary funds.

Overview of the Financial Statements: (Continued)

Governmental funds - A *governmental fund* is used to account for essentially the same functions or services reported as governmental activities in the government-wide financial statements. However, government-wide financial statements are prepared on the accrual basis of accounting while governmental fund financial statements are prepared on the modified accrual basis of accounting. Thus, governmental fund financial statements focus on near-term inflows and outflows of financial resources and the balance of financial resources available at the end of the fiscal year. Such information is useful in evaluating the City's ability to satisfy near-term financing requirements. Since the focus of governmental funds is narrower than that of government-wide financial statements, a reconciliation between the two methods used is provided at the bottom of the governmental fund balance sheet (exhibit 3) and the governmental fund statement of revenues, expenditures and changes in fund balances (exhibit 5). By comparing the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements readers may better understand the long-term impact of the City's near-term financing decisions.

The City has one major governmental fund - the *General Fund*. The City has four funds considered Non-major funds. These are the City Grants Fund, the Housing Choice Fund, the Capital Reserve Fund, and the Meals Tax Fund. The City Grants Fund is then combined with the Housing Choice Fund to create the Special Revenue Funds. The Capital Reserve Fund, and the Meals Tax Fund are combined to form the Capital Projects Funds. Together the Special Revenue Funds and the Capital Projects Funds comprise the City's Nonmajor Governmental Funds. Information on these funds are contained in Exhibits twelve and thirteen. This data is then combined in a single column for the governmental fund balance sheet (exhibit 3) and the governmental fund statement of revenues, expenditures, changes in fund balances (exhibit 4).

Proprietary funds - *Proprietary funds* consist of enterprise funds which are established to account for the delivery of goods and services to the public. These funds use the accrual basis of accounting, similar to private businesses.

Enterprise funds are used to report the same functions as the business-type activities in the government-wide financial statements. Electric, Water, Sewer and Refuse/Landfill funds are presented on the statements individually as major funds (exhibits 6-8). Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business. The intent of the governing body is to finance these services primarily through user charges and fees.

Notes to the financial statements - Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statement and accompanying notes, this report presents certain required information supplements including budgetary comparison schedules and presentation of combining financial statements for the discretely presented component unit School Board. The School Board does not issue separate financial statements.

Government-wide Financial Analysis

As stated earlier in this discussion, net assets may serve as a useful indicator of a City's financial position over time. For the City in FY2004, assets exceeded liabilities by \$20,394,724 at the close of the fiscal year as presented in the Table below. This was an increase of \$1,207,581 or 6.3% over the FY2003 closing amount of \$19,187,143, as restated.

Schedule of Assets, Liabilities and Net Assets For the Years Ended June 30, 2004 and 2003

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 3,192,419	\$ 5,325,615	\$ 9,141,956	\$ 7,703,361	\$ 12,334,375	\$ 13,028,976
Capital assets	13,531,676	14,218,533	15,092,730	15,224,429	28,624,406	29,442,962
Total assets	<u>\$ 16,724,095</u>	<u>\$ 19,544,148</u>	<u>\$ 24,234,686</u>	<u>\$ 22,927,790</u>	<u>\$ 40,958,781</u>	<u>\$ 42,471,938</u>
Long-term liabilities outstanding	\$ 13,665,030	\$ 14,644,347	\$ 3,436,307	\$ 4,209,610	\$ 17,101,337	\$ 18,853,957
Current liabilities	2,118,943	4,165,639	1,343,777	1,539,154	3,462,720	5,704,793
Total liabilities	<u>\$ 15,783,973</u>	<u>\$ 18,809,986</u>	<u>\$ 4,780,084</u>	<u>\$ 5,748,764</u>	<u>\$ 20,564,057</u>	<u>\$ 24,558,750</u>
Net assets:						
Invested in capital assets, net of related debt	\$ (845,555)	\$ (1,029,636)	\$ 14,978,661	\$ 14,975,933	\$ 14,133,106	\$ 13,946,297
Restricted	420,396	332,294	-	-	420,396	332,294
Unrestricted	1,365,281	1,431,504	4,475,941	2,203,093	5,841,222	3,634,597
Total net assets	<u>\$ 940,122</u>	<u>\$ 734,162</u>	<u>\$ 19,454,602</u>	<u>\$ 17,179,026</u>	<u>\$ 20,394,724</u>	<u>\$ 17,913,189</u>

At the end of FY2004, the City's investment in capital assets, net of related debt is \$14,133,106 and represents sixty nine and three tenths of a percent (69.3%) of total net assets. These capital assets are used to deliver services to City residents and business; and accordingly, these assets are not available for future spending. Although the important and needed investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current Fiscal Year, the City's Governmental Activities investment in capital assets net of related debt is (\$845,555). The reason for this is due to the recording of liabilities with no assets such as accrued leave, current year depreciation expense and joint tenancy assets transferred to the School Board and unexpended proceeds from the phone system lease.

Restricted Assets represent resources subject to external restrictions on how they may be used. The City's restricted net assets account for 2.1% of total net assets. The remaining balance of unrestricted net assets in the amount of \$5,841,222 or 28.6% of total assets, may be used to meet the government's ongoing obligations.

Government-wide Financial Analysis (Continued)

Governmental Activities - Governmental activities decreased Martinsville City's net assets by \$406,547. The key elements of this decrease are found in exhibit 5. The primary cause of this decline was the sale of the Shell Building which caused a decrease in capital assets and inventory of \$1,434,196. Another significant cause of the decrease was the transfer of assets to the Schools in the amount of \$691,992. This represents the amount of school related debt, net of accumulated depreciation, retired during the fiscal year. Per Virginia law once the debt on a school asset is paid the asset must be transferred to the Schools.

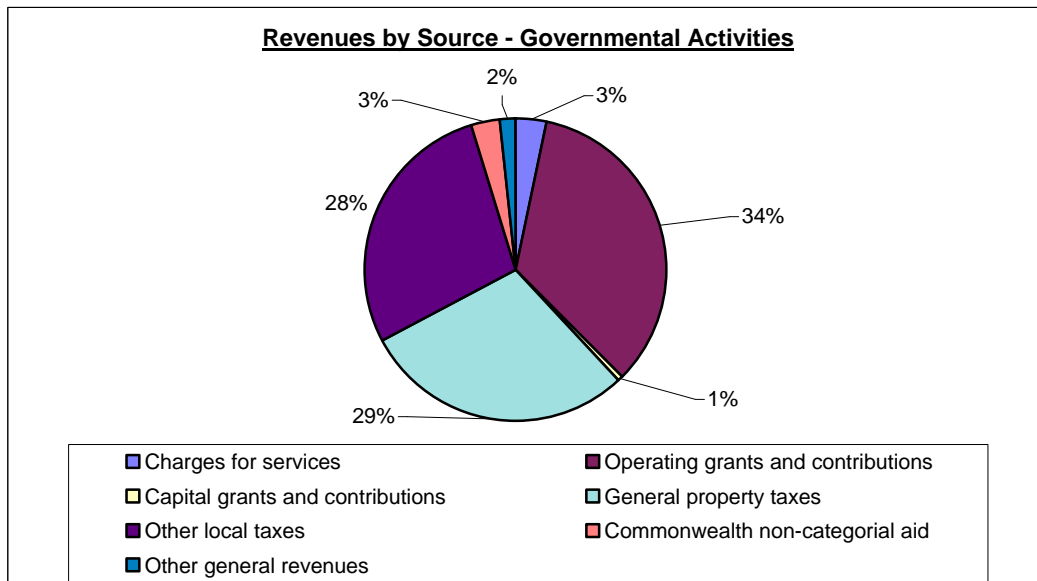
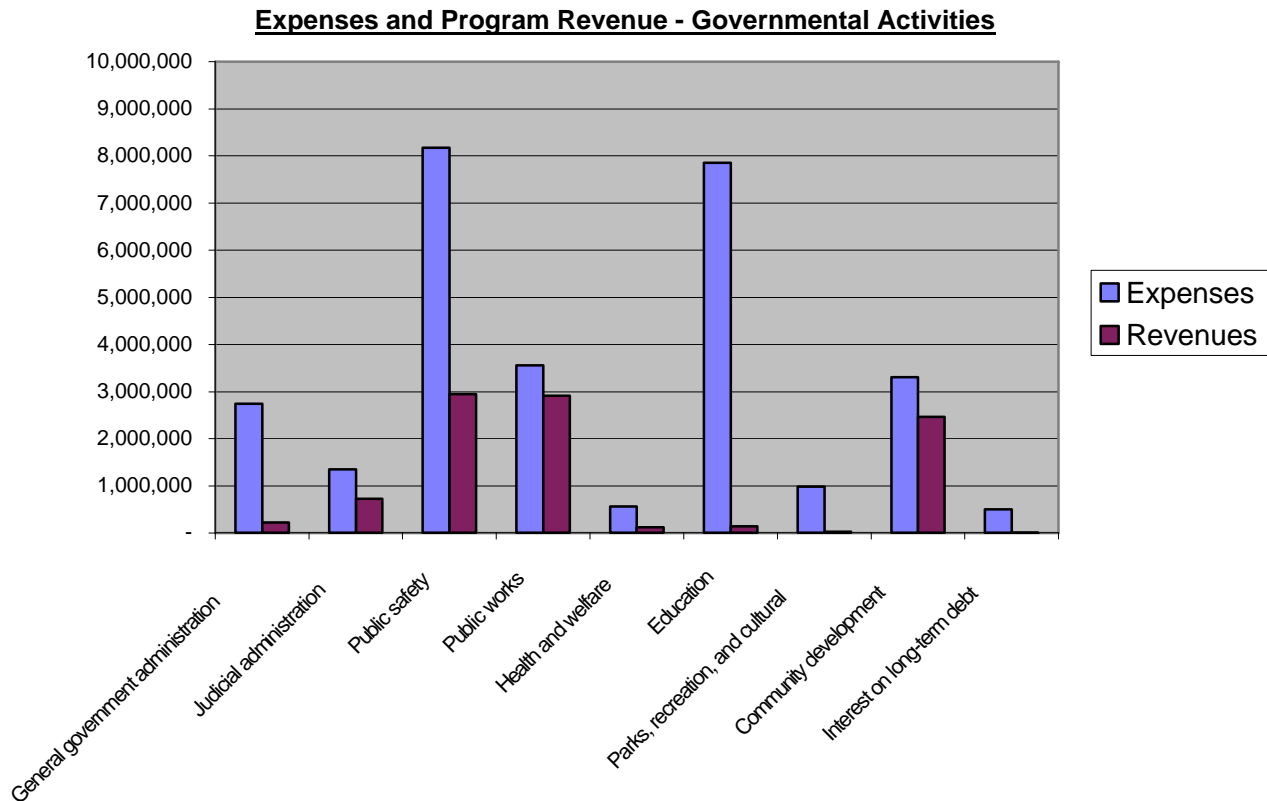
Changes in Net Assets For the Years Ended June 30, 2004 and 2003

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 817,849	\$ 888,110	\$ 18,287,298	\$ 17,729,572	\$ 19,105,147	\$ 18,617,682
Operating grants and contributions	8,613,003	7,515,844	-	-	8,613,003	7,515,844
Capital grants and contributions	139,992	1,116,848	243,925	225,184	383,917	1,342,032
General revenues:						
General property taxes	7,303,536	6,747,760	-	-	7,303,536	6,747,760
Other local taxes	7,112,440	6,887,937	-	-	7,112,440	6,887,937
Commonwealth non-categorical aid	741,465	774,356	-	-	741,465	774,356
Other general revenues	415,911	393,783	-	18,032	415,911	411,815
Total revenues	<u>\$ 25,144,196</u>	<u>\$ 24,324,638</u>	<u>\$ 18,531,223</u>	<u>\$ 17,972,788</u>	<u>\$ 43,675,419</u>	<u>\$ 42,297,426</u>
Expenses:						
General government administration	\$ 2,743,168	\$ 2,810,467	\$ -	\$ -	\$ 2,743,168	\$ 2,810,467
Judicial administration	1,351,523	1,394,465	-	-	1,351,523	1,394,465
Public safety	8,167,425	7,793,368	-	-	8,167,425	7,793,368
Public works	3,558,497	3,268,790	-	-	3,558,497	3,268,790
Health and welfare	560,092	486,640	-	-	560,092	486,640
Education	7,849,055	8,464,870	-	-	7,849,055	8,464,870
Parks, recreation, and cultural	984,188	989,475	-	-	984,188	989,475
Community development	3,309,836	3,481,450	-	-	3,309,836	3,481,450
Interest on long-term debt	502,572	437,490	-	-	502,572	437,490
Electric	-	-	7,880,557	7,860,760	7,880,557	7,860,760
Water	-	-	1,630,847	1,597,226	1,630,847	1,597,226
Sewer	-	-	2,016,250	1,934,362	2,016,250	1,934,362
Refuse collection/landfill	-	-	1,913,828	1,485,234	1,913,828	1,485,234
Total expenses	<u>\$ 29,026,356</u>	<u>\$ 29,127,015</u>	<u>\$ 13,441,482</u>	<u>\$ 12,877,582</u>	<u>\$ 42,467,838</u>	<u>\$ 42,004,597</u>
Increase in net assets before transfers	\$ (3,882,160)	\$ (4,802,377)	\$ 5,089,741	\$ 5,095,206	\$ 1,207,581	\$ 292,829
Transfers	<u>3,475,613</u>	<u>4,221,484</u>	<u>(3,475,613)</u>	<u>(4,221,484)</u>	<u>-</u>	<u>-</u>
Increase in net assets	\$ (406,547)	\$ (580,893)	\$ 1,614,128	\$ 873,722	\$ 1,207,581	\$ 292,829
Net assets-beginning, as restated	<u>1,346,669</u>	<u>1,315,055</u>	<u>17,840,474</u>	<u>16,305,304</u>	<u>19,187,143</u>	<u>17,620,359</u>
Net assets - ending	<u>\$ 940,122</u>	<u>\$ 734,162</u>	<u>\$ 19,454,602</u>	<u>\$ 17,179,026</u>	<u>\$ 20,394,724</u>	<u>\$ 17,913,188</u>

Government-wide Financial Analysis: (Continued)

Revenues from governmental activities totaled \$25,144,196 with operating grants and contributions (34.3%), other local taxes (28.3%), and general property taxes (29%) comprising 91.6% of the City's revenues. Expenses for education (27%), public safety (28.1%), community development (11.4%), public works (12.2%), and general government administration (9.5%) account for 88.3% of total governmental expenses of \$29,026,356.

The chart below compares the revenues and expenses by program for governmental activities. In every category expenses outpace the revenues generated. This is common throughout the Commonwealth because most of the programs are not able to generate revenue. For those programs that can generate revenue (Recreation, Building Inspections etc.) the City has traditionally followed a policy of maintaining associated charges at a minimal level and funding the expenses from other revenue sources.



The above portrays the Sources of Revenue for the Governmental Activities of the City.

Government-wide Financial Analysis: (Continued)

Business-type Activities increased the City's net assets by \$1,614,128 accounting for the only growth in the City's net assets. This increase was primarily the result in a decrease in transfers of \$745,821 when compared to the prior year.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

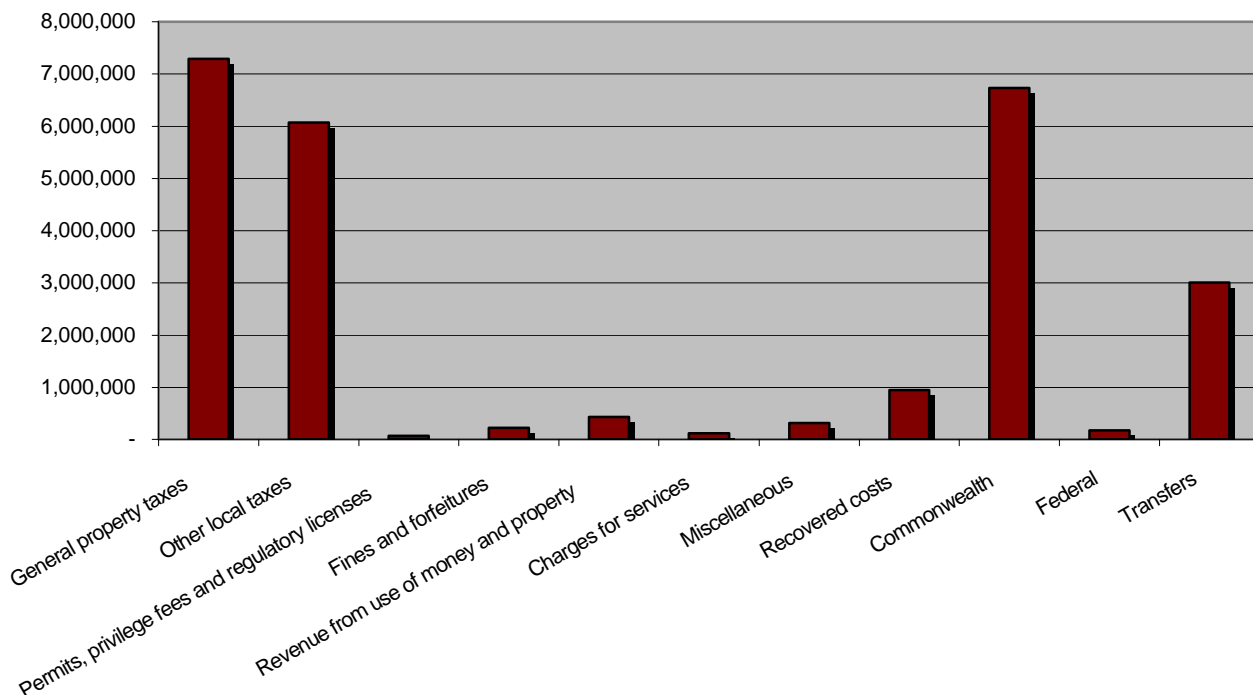
Governmental Funds - The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances at the end of the fiscal year can be used to measure net resources available for expenditure. Governmental Funds reported a combined ending fund balance of \$1,063,021 an increase of \$137,779 when compared to the prior year. Forty-six percent (\$488,526) of the combined governmental funds balance is unreserved. The remaining fifty-four percent (\$574,495) of the combined fund balance is reserved to show it is not available for spending because it has been committed for future capital projects.

The General Fund is the operating fund of the City. The General Fund reports a fund balance at June 30, 2004 of \$813,405. This is an increase from the prior year of \$8,749. Eighty-one percent or \$659,306 of the total fund balance is unreserved, an increase of \$24,298 from June 30, 2003. As a measure of the General Funds liquidity it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 2.6% of total General Fund expenditures, while total fund balance is 3.2% of that same amount.

General Fund Revenues and Other Sources by Category

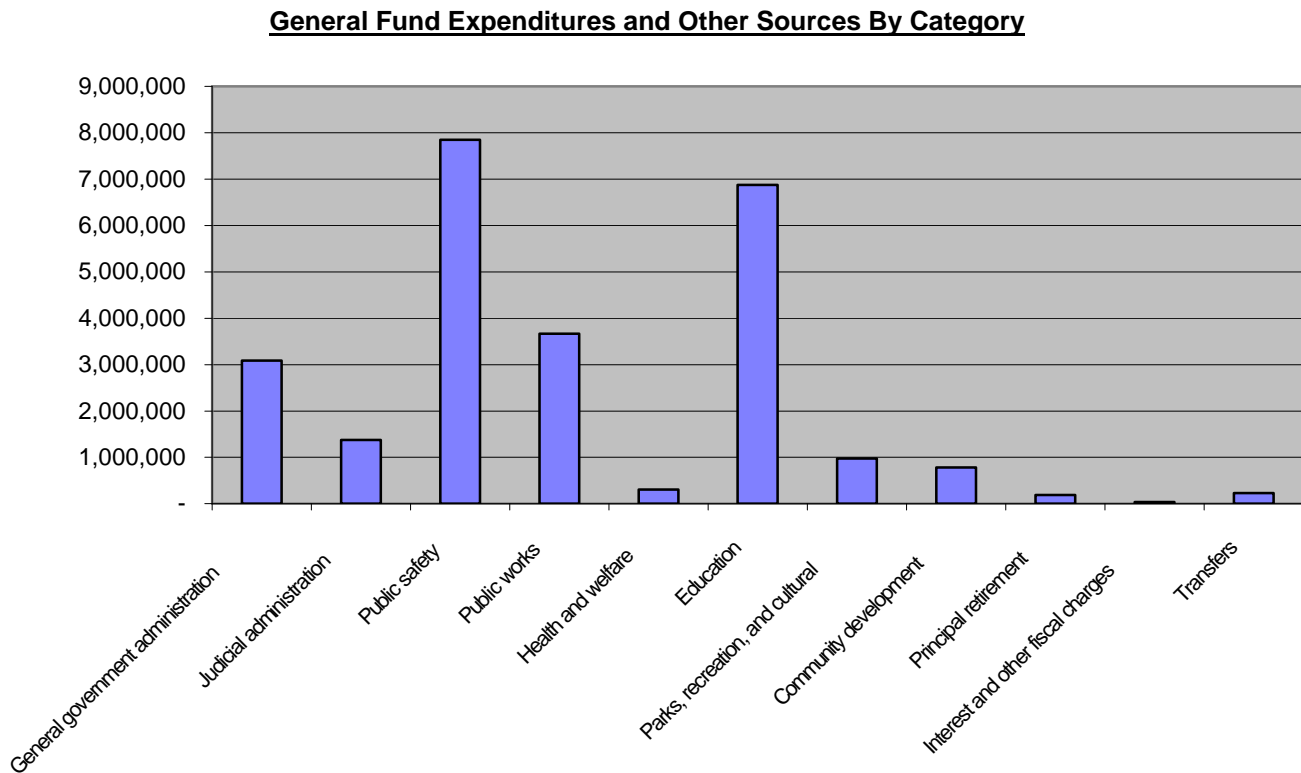
The following graph depicts General Fund revenues and other sources by categories. Total revenues and other sources are \$25,362,261 including transfers into the fund of \$3,005,177.

General Fund Revenues and Other Sources By Category



General Fund Expenditures and Other Sources by Category

The graph below displays General Fund expenditures and other uses by category. Total expenditures and uses are \$25,353,512 including transfers out of the fund of \$226,586.



Proprietary funds - reported combined ending net assets of \$19,454,602: an increase of \$1,614,128 in comparison with the amount reported on June 30, 2003. This increase was the result of an increase in the Refuse Fund of \$1,392,684 and the Electric Fund of \$775,487. The Sewer Fund reported a decrease in net assets of \$375,426 or 6% and the Water Fund decreased \$178,617 or 3.6%.

The decreases in the Sewer and Water Funds were caused by transferring an amount from those funds that is greater than their Operating Income.

The Enterprise Funds contributed \$3,675,613 in the support of other City operations. Of that amount \$3,005,177 or 82% was transferred to the General Fund, and \$670,436 or 18% was transferred to the Capital Reserve Fund.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. Revenues were increased by \$460,718 or 2.1% while expenditures increased by \$479,307 or 1.9%. The Revenue increases were as follows:

- \$24,454 in Miscellaneous
- \$208,537 in Recovered costs
- \$84,034 in Intergovernmental Revenues from the Commonwealth
- \$143,693 in Intergovernmental revenues from the Federal Government.

General Fund Budgetary Highlights: (Continued)

The Expenditure amendments were as follows:

- \$96,559 in decreases in General government administration
- \$22,824 in increases in Judicial administration
- \$327,603 in increases Public Safety
- \$206,412 in increases in Public Works
- \$11,277 in increases in Parks, recreation, and cultural
- \$7,750 in decreases in Community development

The various increases had a net effect of increasing the use of the fund balance by \$18,589. During the year, however, revenues fell \$100,124 or .4% short of meeting the revised budget and expenditures were less than budget by \$313,388 or 1.2%. The result was an increase of \$8,749 to fund balance or \$213,264 more than the revised budget.

Capital Asset and Debt Administration

Capital assets - The City's investment in capital assets for its governmental and enterprise operations as of June 30, 2004, is \$28,624,406 (net of accumulated depreciation) as listed in Table 3. This investment in capital assets includes land, buildings and improvements, infrastructure, and machinery and equipment. There were no major capital asset events during FY2004.

City of Martinsville, Virginia Capital Assets June 30, 2004 and 2003

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land	\$ 1,531,372	\$ 1,511,248	\$ 683,624	\$ 683,624	\$ 2,214,996	\$ 2,194,872
Buildings and improvements	14,975,761	15,330,747	2,952,400	2,952,400	17,928,161	18,283,147
Infrastructure	-	-	46,570,391	45,906,146	46,570,391	45,906,146
Equipment	4,806,956	5,045,486	6,173,854	6,079,354	10,980,810	11,124,840
Total	\$ 21,314,089	\$ 21,887,481	\$ 56,380,269	\$ 55,621,524	\$ 77,694,358	\$ 77,509,005
Less: accumulated depreciation	7,782,413	7,668,948	41,287,539	40,397,095	49,069,952	48,066,043
Net capital assets	<u>\$ 13,531,676</u>	<u>\$ 14,218,533</u>	<u>\$ 15,092,730</u>	<u>\$ 15,224,429</u>	<u>\$ 28,624,406</u>	<u>\$ 29,442,962</u>

Additional information on Martinsville City's capital assets can be found in Note 6 of this report.

Long-term debt - At the close of FY2004, Martinsville City had total outstanding obligations of \$19,190,714. Of this amount \$13,580,355 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources, i.e., revenue bonds, landfill closure and post-closure liability, compensated absences, notes payable and capital lease obligations.

During the Fiscal Year the City decreased its long-term debt by \$2,838,944 or 12.9%. The City paid principal payments of \$3,276,101 and issued \$127,000 in new debt used to purchase a street sweeper and other obligations increased \$310,151. This decrease is the result of City Council's deliberate actions to decrease debt and improve the City's overall fund balances.

Capital Asset and Debt Administration: (Continued)

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property on the amount of general obligation borrowing which a City may issue. On June 30, 2004 the City's ratio of Net General Obligation Debt to Assessed Value was 1.96%.

Additional information on the Martinsville City's long-term debt can be found in Note No. 8 of this report.

Economic Factors Influencing FY2005 Budgets and Tax Rates

The unemployment rate for the City on June 30, 2004 was 13.6%. This compares unfavorably to the state's average unemployment rate of 4.3% and the national average of 6.4% for the same time.

Martinsville has a per capita income of \$17,251 as compared to the state average of \$23,975.

According to the consumer price index, Martinsville enjoys a lower cost of living when compared to most other areas in the nation.

The landfill is reaching capacity and it has been decided a transfer station will be built to ship waste to a private landfill. Once the City's landfill is closed in FY2006 the cost to dispose of the waste will increase substantially causing the City to increase the various customer collection charges as much as 90%. In an effort to spread the increases over several years City Council increased these charges.

The current contract to purchase electricity for resale to the public will expire on June 30, 2005. Current market rates indicate the City can expect an increase of at least 40%. This increase will force customer charges to rise accordingly. City Council voted to increase rates by 10% in an attempt to phase in the price increase.

The State provided more than \$1.3M in additional funding for the School system.

All these factors were considered in preparing the City's budget for the 2005 fiscal year.

In order to balance the budget the following adjustments were approved:

- Various landfill charges were increased - Residential rate increased from \$7.50 to \$9.50 per month, Commercial rate increased from \$17.00 to \$18.50; gate rate increased from \$33.00 to \$39.00 per ton.
- Electric rates were increased 10% across the board.
- Decreased the General Fund Transfer to the Schools by more than \$700,000.

The additional revenues raised by the rate increases mentioned above and the decrease in the transfer to the schools allowed the City to increase the overall fund balances and at the same time increase the Capital replacement program by over \$2.5M as compared to the beginning FY2004 budget. The replacement of obsolete equipment will allow a decrease in maintenance costs and improved services for our citizens.

Requests for Information

This financial report is designed to provide a general overview of the City of Martinsville's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Martinsville, Director of Financial and General Services, 55 West Church Street, Martinsville, Virginia 24114.

BASIC FINANCIAL STATEMENTS

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Government-wide Financial Statements

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Statement of Net Assets
June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	School Board
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 546,839	\$ 4,581,446	\$ 5,128,285	\$ 1,302,215
Receivables (net of allowance for uncollectibles):				
Property taxes	296,881	-	296,881	-
Accounts receivable	537,518	2,669,882	3,207,400	-
Inventory	1,558,377	921,469	2,479,846	-
Internal balances	(969,159)	969,159	-	-
Due from other governments	1,221,963	-	1,221,963	1,055,379
Total Current Assets	\$ 3,192,419	\$ 9,141,956	\$ 12,334,375	\$ 2,357,594
Noncurrent Assets				
Capital assets (net of accumulated depreciation):				
Land	\$ 1,531,372	\$ 683,624	\$ 2,214,996	\$ 47,172
Buildings and improvements	10,913,027	852,467	11,765,494	3,021,118
Equipment	1,087,277	1,535,835	2,623,112	497,044
Utility plant in service	-	12,020,804	12,020,804	-
Total Capital Assets	\$ 13,531,676	\$ 15,092,730	\$ 28,624,406	\$ 3,565,334
Total Assets	\$ 16,724,095	\$ 24,234,686	\$ 40,958,781	\$ 5,922,928
LIABILITIES				
Current Liabilities				
Accounts payable and other current liabilities	\$ 691,091	\$ 388,883	\$ 1,079,974	\$ 1,305,720
Accrued interest payable	293,369	-	293,369	-
Current portion of long-term obligations	1,134,483	954,894	2,089,377	-
Total Current Liabilities	\$ 2,118,943	\$ 1,343,777	\$ 3,462,720	\$ 1,305,720
Noncurrent Liabilities				
Noncurrent portion of long-term obligations	13,665,030	3,436,307	17,101,337	-
Total Liabilities	\$ 15,783,973	\$ 4,780,084	\$ 20,564,057	\$ 1,305,720
NET ASSETS				
Invested in capital assets, net of related debt	\$ (845,555)	\$ 14,978,661	\$ 14,133,106	\$ 3,565,334
Restricted for:				
Construction	420,396	-	420,396	-
Unrestricted assets	1,365,281	4,475,941	5,841,222	1,051,874
Total Net Assets	\$ 940,122	\$ 19,454,602	\$ 20,394,724	\$ 4,617,208
Total Liabilities and Net Assets	\$ 16,724,095	\$ 24,234,686	\$ 40,958,781	\$ 5,922,928

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MARTINSVILLE, VIRGINIA

Statement of Activities
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 2,743,168	\$ 12,036	\$ 212,882	\$ -
Judicial administration	1,351,523	243,296	483,380	-
Public safety	8,167,425	98,329	2,849,111	-
Public works	3,558,497	347,456	2,568,446	-
Health and welfare	560,092	-	125,017	-
Education	7,849,055	-	-	139,992
Parks, recreation, and cultural	984,188	25,188	3,510	-
Community development	3,309,836	91,544	2,370,657	-
Interest on long-term debt	502,572	-	-	-
Total government activities	\$ 29,026,356	\$ 817,849	\$ 8,613,003	\$ 139,992
Business-type activities:				
Electric	\$ 7,880,557	\$ 10,705,777	\$ 243,925	\$ -
Water	1,630,847	2,163,749	-	-
Sewer	2,016,250	2,040,824	-	-
Refuse collection / landfill	1,913,828	3,376,948	-	-
Total business-type activities	\$ 13,441,482	\$ 18,287,298	\$ 243,925	\$ -
Total primary government	\$ 42,467,838	\$ 19,105,147	\$ 8,613,003	\$ 139,992
COMPONENT UNIT:				
School Board	\$ 22,921,074	\$ 467,452	\$ 15,255,610	\$ -

General revenues:
 General property taxes
 Local sales tax
 Business license tax
 Meals tax
 Consumer utility tax
 Telephone tax
 Other local taxes
 Unrestricted revenues from use of money and property
 Miscellaneous
 Commonwealth of Virginia non-categorical aid
 City contribution to the school board
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning, as restated
 Net assets - ending

The accompanying notes to financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business Type Activities	Total	School Board	Functions/Programs
PRIMARY GOVERNMENT:				
Governmental activities:				
\$ (2,518,250)	\$ -	\$ (2,518,250)	\$ -	General government administration
(624,847)	-	(624,847)	-	Judicial administration
(5,219,985)	-	(5,219,985)	-	Public safety
(642,595)	-	(642,595)	-	Public works
(435,075)	-	(435,075)	-	Health and welfare
(7,709,063)	-	(7,709,063)	-	Education
(955,490)	-	(955,490)	-	Parks, recreation, and cultural
(847,635)	-	(847,635)	-	Community development
(502,572)	-	(502,572)	-	Interest on long-term debt
<u>\$ (19,455,512)</u>	<u>\$ -</u>	<u>\$ (19,455,512)</u>	<u>\$ -</u>	Total government activities
Business-type activities:				
\$ -	\$ 3,069,145	\$ 3,069,145	\$ -	Electric
-	532,902	532,902	-	Water
-	24,574	24,574	-	Sewer
-	1,463,120	1,463,120	-	Refuse collection / landfill
<u>\$ -</u>	<u>\$ 5,089,741</u>	<u>\$ 5,089,741</u>	<u>\$ -</u>	Total business-type activities
<u>\$ (19,455,512)</u>	<u>\$ 5,089,741</u>	<u>\$ (14,365,771)</u>	<u>\$ -</u>	Total primary government
COMPONENT UNIT:				
		<u>\$ (7,198,012)</u>		School Board
General revenues:				
\$ 7,303,536	\$ -	\$ 7,303,536	\$ -	General property taxes
2,048,135	-	2,048,135	-	Local sales tax
1,488,635	-	1,488,635	-	Business license tax
1,039,988	-	1,039,988	-	Meals tax
764,038	-	764,038	-	Consumer utility tax
587,291	-	587,291	-	Telephone tax
1,184,353	-	1,184,353	-	Other local taxes
75,751	-	75,751	9,613	Unrestricted revenues from use of money and property
340,160	-	340,160	144,308	Miscellaneous
741,465	-	741,465	-	Commonwealth of Virginia non-categorical aid
-	-	-	7,554,959	City contribution to the school board
3,475,613	(3,475,613)	-	-	Transfers
<u>\$ 19,048,965</u>	<u>\$ (3,475,613)</u>	<u>\$ 15,573,352</u>	<u>\$ 7,708,880</u>	Total general revenues and transfers
<u>\$ (406,547)</u>	<u>\$ 1,614,128</u>	<u>\$ 1,207,581</u>	<u>\$ 510,868</u>	Change in net assets
<u>1,346,669</u>	<u>17,840,474</u>	<u>19,187,143</u>	<u>4,106,340</u>	Net assets - beginning, as restated
<u>\$ 940,122</u>	<u>\$ 19,454,602</u>	<u>\$ 20,394,724</u>	<u>\$ 4,617,208</u>	Net assets - ending

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Fund Financial Statements

Balance Sheet - Governmental Funds
At June 30, 2004

	General	Nonmajor Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 5,230	\$ 541,609	\$ 546,839
Receivables (Net of allowances for uncollectibles):			
Taxes, including penalties	296,881	-	296,881
Accounts	536,316	1,202	537,518
Inventory	285,785	-	285,785
Due from other governmental units	906,145	315,818	1,221,963
Total assets	\$ <u>2,030,357</u>	\$ <u>858,629</u>	\$ <u>2,888,986</u>
LIABILITIES			
Accounts payable	\$ 586,324	\$ 104,767	\$ 691,091
Due to other funds	464,913	504,246	969,159
Deferred revenue	165,715	-	165,715
Total liabilities	\$ <u>1,216,952</u>	\$ <u>609,013</u>	\$ <u>1,825,965</u>
FUND BALANCES			
Unreserved:			
Designated for subsequent expenditures	\$ 154,099	\$ -	\$ 154,099
Designated for capital projects	-	420,396	420,396
Unreserved (deficit)	659,306	(170,780)	488,526
Total fund balances	\$ <u>813,405</u>	\$ <u>249,616</u>	\$ 1,063,021
Total liabilities and fund balances	\$ <u>2,030,357</u>	\$ <u>858,629</u>	

Detailed explanation of adjustments from fund statements to government-wide statement of net assets:

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. 14,804,268

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (293,369)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in the fund balance. 165,715

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds. All liabilities--both current and long-term--are reported in the statement of net assets. (14,799,513)

Net assets of General Government Activities \$ 940,122

The accompanying notes to financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2004

	General	Total Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
General property taxes	\$ 7,288,727	\$ -	\$ 7,288,727
Other local taxes	6,072,452	1,039,988	7,112,440
Permits, privilege fees and regulatory licenses	69,393	-	69,393
Fines and forfeitures	221,076	-	221,076
Revenue from use of money and property	428,227	56,866	485,093
Charges for services	118,038	-	118,038
Miscellaneous	309,461	30,699	340,160
Recovered costs	947,939	-	947,939
Intergovernmental:			
Commonwealth	6,730,389	278,602	7,008,991
Federal	171,382	2,314,087	2,485,469
Total revenues	<u>\$ 22,357,084</u>	<u>\$ 3,720,242</u>	<u>\$ 26,077,326</u>
Expenditures:			
Current:			
General government administration	\$ 3,088,115	\$ 35,190	\$ 3,123,305
Judicial administration	1,372,696	-	1,372,696
Public safety	7,845,641	-	7,845,641
Public works	3,667,769	-	3,667,769
Health and welfare	304,248	257,720	561,968
Education	6,877,698	-	6,877,698
Parks, recreation, and cultural	969,929	-	969,929
Community development	780,006	2,217,160	2,997,166
Capital outlays	-	677,481	677,481
Capital projects	-	110,432	110,432
Debt service:			
Principal retirement	184,375	1,721,964	1,906,339
Interest and other fiscal charges	36,449	572,287	608,736
Total expenditures	<u>\$ 25,126,926</u>	<u>\$ 5,592,234</u>	<u>\$ 30,719,160</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (2,769,842)</u>	<u>\$ (1,871,992)</u>	<u>\$ (4,641,834)</u>
Other financing sources (uses):			
Proceeds from indebtedness	\$ -	\$ 127,000	\$ 127,000
Sale of property	-	1,177,000	1,177,000
Transfers in	3,005,177	897,022	3,902,199
Transfers (out)	(226,586)	(200,000)	(426,586)
Total other financing sources (uses)	<u>\$ 2,778,591</u>	<u>\$ 2,001,022</u>	<u>\$ 4,779,613</u>
Changes in fund balances	\$ 8,749	\$ 129,030	\$ 137,779
Fund balances at beginning of year, as restated	<u>804,656</u>	<u>120,586</u>	<u>925,242</u>
Fund balances at end of year	<u><u>\$ 813,405</u></u>	<u><u>\$ 249,616</u></u>	<u><u>\$ 1,063,021</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
For the Year Ended June 30, 2004

		<u>Primary Government Governmental Funds</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	\$	137,779
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current year.		
Capital outlay	\$ 312,286	
Depreciation expense	<u>(728,340)</u>	(416,054)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase (decrease) net assets		(1,442,196)
Transfer of joint tenancy assets from Primary Government to the Component Unit		(691,992)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Details of this item consist of the change in deferred taxes.		14,809
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Details supporting this adjustment are as follows:		
Principal retired on debt	\$ 2,106,855	
Proceeds from indebtedness	<u>(127,000)</u>	1,979,855
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:		
Change in accrued leave	\$ 4,720	
Change in interest payable	<u>6,532</u>	<u>11,252</u>
Change in net assets of governmental activities	\$	<u>(406,547)</u>

The accompanying notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Net Assets
At June 30, 2004

		Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
ASSETS						
Current Assets:						
Cash and cash equivalents	\$	318,545	\$ 123,060	\$ 386,643	\$ 3,753,198	\$ 4,581,446
Receivables:						
Accounts - net		1,468,968	315,137	288,684	597,093	2,669,882
Due from other funds		-	-	-	969,159	969,159
Inventory		771,425	150,044	-	-	921,469
Total current assets	\$	2,558,938	\$ 588,241	\$ 675,327	\$ 5,319,450	\$ 9,141,956
Noncurrent Assets						
Capital assets:						
Land	\$	-	\$ 658,224	\$ 25,400	\$ -	\$ 683,624
Buildings and improvements		586,744	1,186,449	1,031,542	147,665	2,952,400
Equipment		1,776,233	1,069,372	1,011,082	2,317,167	6,173,854
Utility plant in service		21,150,568	10,311,156	15,108,667	-	46,570,391
Less accumulated depreciation		(18,844,950)	(8,904,152)	(11,933,405)	(1,605,032)	(41,287,539)
Total capital assets (net of accumulated depreciation)	\$	4,668,595	\$ 4,321,049	\$ 5,243,286	\$ 859,800	\$ 15,092,730
Total assets	\$	7,227,533	\$ 4,909,290	\$ 5,918,613	\$ 6,179,250	\$ 24,234,686
LIABILITIES						
Current liabilities:						
Accounts payable	\$	14,446	\$ 15,933	\$ 31,320	\$ 29,759	\$ 91,458
Customers' deposits payable		259,005	38,420	-	-	297,425
Current portion of long-term obligations		5,962	4,648	3,616	940,668	954,894
Total current liabilities	\$	279,413	\$ 59,001	\$ 34,936	\$ 970,427	\$ 1,343,777
Noncurrent liabilities:						
Noncurrent portion of long-term obligations		53,657	41,832	32,545	3,308,273	3,436,307
Total liabilities	\$	333,070	\$ 100,833	\$ 67,481	\$ 4,278,700	\$ 4,780,084
NET ASSETS						
Invested in capital assets, net of related debt	\$	4,668,595	\$ 4,321,049	\$ 5,243,286	\$ 745,731	\$ 14,978,661
Unrestricted assets		2,225,868	487,408	607,846	1,154,819	4,475,941
Total Net Assets	\$	6,894,463	\$ 4,808,457	\$ 5,851,132	\$ 1,900,550	\$ 19,454,602
Total Liabilities and Net Assets	\$	7,227,533	\$ 4,909,290	\$ 5,918,613	\$ 6,179,250	\$ 24,234,686

The accompanying notes to financial statements are an integral part of this statement.

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2004

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Operating revenues:					
Charges for services	\$ 10,624,277	\$ 2,097,701	\$ 2,026,725	\$ 3,228,310	\$ 17,977,013
Miscellaneous	81,500	66,048	14,099	148,638	310,285
Total operating revenues	\$ 10,705,777	\$ 2,163,749	\$ 2,040,824	\$ 3,376,948	\$ 18,287,298
Operating expenses:					
Personal services	\$ 535,836	\$ 564,780	\$ 593,976	\$ 393,619	\$ 2,088,211
Fringe benefits	152,086	193,262	199,039	126,317	670,704
Contractual services	132,468	29,556	21,326	216,150	399,500
Other charges	6,424,602	626,119	686,122	911,792	8,648,635
Depreciation	635,266	217,130	515,569	183,927	1,551,892
Total operating expenses	\$ 7,880,258	\$ 1,630,847	\$ 2,016,032	\$ 1,831,805	\$ 13,358,942
Operating income (loss)	\$ 2,825,519	\$ 532,902	\$ 24,792	\$ 1,545,143	\$ 4,928,356
Non-operating revenues (expenses):					
Federal and state grants	\$ 243,925	\$ -	\$ -	\$ -	\$ 243,925
Interest expense	(299)	-	(218)	(82,023)	(82,540)
Total non-operating revenues (expenses)	\$ 243,626	\$ -	\$ (218)	\$ (82,023)	\$ 161,385
Income (loss) before transfers	\$ 3,069,145	\$ 532,902	\$ 24,574	\$ 1,463,120	\$ 5,089,741
Transfers:					
Transfers in	-	-	-	200,000	200,000
Transfers (out)	(2,293,658)	(711,519)	(400,000)	(270,436)	(3,675,613)
Changes in net assets	\$ 775,487	\$ (178,617)	\$ (375,426)	\$ 1,392,684	\$ 1,614,128
Net assets at beginning of year, as restated	6,118,976	4,987,074	6,226,558	507,866	17,840,474
Net assets at end of year	\$ 6,894,463	\$ 4,808,457	\$ 5,851,132	\$ 1,900,550	\$ 19,454,602

The accompanying notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2004

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 10,495,591	\$ 2,165,553	\$ 2,009,787	\$ 3,222,872	\$ 17,893,803
Payments to suppliers and other operating expenses	(6,628,864)	(660,236)	(766,925)	(1,150,861)	(9,206,886)
Payments to employees (including fringe benefits)	(687,922)	(758,042)	(793,015)	(519,936)	(2,758,915)
Net cash provided by (used in) operating activities	\$ 3,178,805	\$ 747,275	\$ 449,847	\$ 1,552,075	\$ 5,928,002
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	\$ (478,810)	\$ (95,469)	\$ (107,966)	\$ (76,500)	\$ (758,745)
Retirement of note payable	-	-	-	(790,000)	(790,000)
Retirements of capital lease obligations	-	-	-	(206,576)	(206,576)
Interest paid on debt	(299)	-	(218)	(82,023)	(82,540)
Net cash provided by (used in) capital and related financing activities	\$ (479,109)	\$ (95,469)	\$ (108,184)	\$ (1,155,099)	\$ (1,837,861)
Cash Flows From Noncapital Financing Activities:					
Transfers	\$ (2,293,658)	\$ (711,519)	\$ (400,000)	\$ (70,436)	\$ (3,475,613)
Increase in landfill closure and post-closure liability	-	-	-	164,261	164,261
Due from other funds	-	-	-	(969,159)	(969,159)
Federal and state grants	243,925	-	-	-	243,925
Net cash provided by (used in) noncapital financing activities	\$ (2,049,733)	\$ (711,519)	\$ (400,000)	\$ (875,334)	\$ (4,036,586)
Increase (decrease) in cash and cash equivalents	\$ 649,963	\$ (59,713)	\$ (58,337)	\$ (478,358)	\$ 53,555
Cash and cash equivalents at beginning of year	(331,418)	182,773	444,980	4,231,556	4,527,891
Cash and cash equivalents at end of year	\$ 318,545	\$ 123,060	\$ 386,643	\$ 3,753,198	\$ 4,581,446
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 2,825,519	\$ 532,902	\$ 24,792	\$ 1,545,143	\$ 4,928,356
Adjustments to reconcile net loss to net cash provided by operations:					
Depreciation	\$ 635,266	\$ 217,130	\$ 515,569	\$ 183,927	\$ 1,551,892
Changes in operating assets and liabilities:					
(Increase) decrease in accounts receivable	(210,186)	1,804	(31,037)	(154,076)	(393,495)
(Increase) in inventory	(18,741)	(3,645)	-	-	(22,386)
Increase (decrease) in:					
Accounts payable	(58,494)	(1,580)	(48,031)	(24,878)	(132,983)
Accrued leave	(13,089)	522	(11,446)	1,959	(22,054)
Customer deposits	18,530	142	-	-	18,672
Total adjustments	\$ 353,286	\$ 214,373	\$ 425,055	\$ 6,932	\$ 999,646
Net cash provided by (used in) operating activities	\$ 3,178,805	\$ 747,275	\$ 449,847	\$ 1,552,075	\$ 5,928,002

The accompanying notes to financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets --
Agency Funds
At June 30, 2004

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>568,966</u>
Total assets	\$ <u><u>568,966</u></u>
LIABILITIES	
Accounts payable	\$ 5,877
Amounts held for others	<u>563,089</u>
Total liabilities	\$ <u><u>568,966</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements As of June 30, 2004

Note 1—Summary of Significant Accounting Policies:

The City of Martinsville, Virginia (the "City") was incorporated in 1940 and its current Charter was granted in 1942. The City operates under a Council/Manager form of government. The Council consists of a Mayor and four (4) council members. The Council is responsible for appointing the City Manager. The City provides a full range of services as authorized by its Charter. These services include police and fire protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities, cultural events, education, social services, water and sewer and electric.

The financial statements of the City of Martinsville, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below.

Financial Statement Presentation

In June 1999, GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This statement, known as the "Reporting Model" statement, affects the way the City prepares and presents financial information.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

Management's Discussion and Analysis - GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1—Summary of Significant Accounting Policies: (Continued)

Statement of Net Assets - The Statement of Net Assets is designed to display financial position of the primary government (government and business-type activities) and its discretely presented component unit. Governments will report all capital assets, in the government-wide Statement of Net Assets and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many government's revise their original budgets over the course of the year for a variety of reasons. Under the new reporting model governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the City of Martinsville (the primary government) and its component units. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

Note 1—Summary of Significant Accounting Policies: (Continued)

B. Individual Component Unit Disclosures

Blended Component Unit. The Martinsville Industrial Development Authority is included as a blended component unit for 2004.

The Authority was created by council resolution pursuant to state statute and it is legally separate from the City. The Council appoints seven (7) board members; however, the City cannot impose its will on the Authority since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Authority is fiscally independent and there is no financial benefit or burden relationship with the City. However, the Authority performs economic development services for the City through the authorization of industrial development revenue bonds and recruitment of potential businesses for location in the City. Accordingly, the Authority is reported as a blended component unit of the City.

Discretely Presented Component Units. The School Board members are appointed by the City Council and are responsible for the operations of the City's School System within the City boundaries. The School Board is fiscally dependent on the City. The City has the ability to approve its budget and any amendments. The primary funding is from the General Fund of the City. The School Fund does not issue a separate financial report. The financial statements of the School Board are presented as a discrete presentation of the City financial statements for the fiscal year ended June 30, 2004.

C. Other Related Organizations

Included in the City's Financial Report

None

Excluded from the City's Financial Report

Blue Ridge Regional Library — The Blue Ridge Regional Library is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The counties of Henry and Patrick and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. No one locality contributes more than 50% of the Library's funding or has oversight responsibility over its operations.

Henry-Martinsville Social Services Board — The Henry-Martinsville Social Services Board is considered a component unit of Henry County and therefore its operations are not included in the City's financial statements. Henry County and the City provide the financial support for the Board and appoint its governing Board. Henry County appoints 6 members of the Board and the City appoints 3 members.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

Note 1—Summary of Significant Accounting Policies: (Continued)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (continued)

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities reflect both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

Note 1—Summary of Significant Accounting Policies: (Continued)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (continued)

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time other specific expenditures. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. The City reports the General Fund as a major governmental fund.

The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. A significant part of the General Fund's revenues is used principally to finance the operations of the Component Unit School Board. The General Fund is considered a major fund for government-wide reporting purposes.

The City reports the following non-major governmental funds:

Special Revenue Funds: Special Revenue Funds account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the City Grants Fund and the Housing Choice Fund.

Capital Projects Funds - Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by Proprietary Funds. Capital Projects Funds consist of the Capital Reserve Fund, and the Meals Tax Fund.

Proprietary Funds - account for operations that are financed in a manner similar to private business enterprises. The Proprietary Fund measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds.

Note 1—Summary of Significant Accounting Policies: (Continued)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (continued)

1. Governmental Funds (continued)

Enterprise Funds - Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The City reports the electric, water, sewer and refuse/landfill funds as major enterprise funds.

Fiduciary Funds - (Trust and Agency Funds) - account for assets held by the City unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Agency Funds. These funds utilize the modified accrual basis of accounting described in the Governmental Fund Presentation. Fiduciary funds are not included in the government-wide financial statements. Agency funds include the Insurance Fund, Sheriff's Fund, West Piedmont Business Development Center Fund (WPBDC), Hooker Field Fund and the Police Academy Fund.

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Investments for the government, as well as for its component units, are reported at fair value. The Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

F. Investments

Investments are stated at fair value which approximates market; no investments are value at cost. Certificates of deposit and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

G. Receivables and payables: (continued)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$800,921 at June 30, 2004 is composed solely of the following:

General Fund

Allowance for uncollectible property taxes	\$ <u>323,157</u>
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Enterprise Funds

Allowance for uncollectible accounts:

Electric Fund	\$ 290,110
Water Fund	38,864
Sewer Fund	60,197
Refuse Collection/Landfill Fund	<u>88,593</u>
Total allowance for uncollectible accounts - Enterprise funds	\$ <u>477,764</u>
Total allowance for uncollectible accounts	\$ <u><u>800,921</u></u>

Real and Personal Property Tax Data:

The tax calendars for real and personal property taxes are summarized below.

	<u>Real Property</u>	<u>Personal Property</u>
Levy	January 1	January 1
Due Date	December 5/June 5 (50% each date)	December 5th
Lien Date	January 1	January 1

The City bills and collects its own property taxes.

H. Inventory

Inventory consists of expendable supplies held for consumption and commercial and residential property held for resale. Inventories are valued at cost or weighted average cost for the supplies held for consumption.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

I. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the City as land, buildings, road registered vehicles, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded as estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest attributable to capitalized assets as of June 30, 2004 was immaterial.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Building improvements	20-40
Furniture, Vehicles, Office and Computer Equipment	4-10
Buses	12
Utility plant in service	40-50

J. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the statement of activities and a long-term obligation in the Statement of Net Assets. In accordance with the provisions of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement.

K. Retirement Plan

Retirement plan contributions are actuarially determined and consist of current service costs and amortization of prior service cost over a 30-year period. The City's policy is to fund pension cost as it accrues.

Note 1—Summary of Significant Accounting Policies: (Continued)

L. Unbilled Revenue

The City bills service charges to customers on a monthly basis. Service charges earned but unbilled are accrued based on the last billing and reported in the financial statements as billed receivables and revenues.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

N. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

O. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

P. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Note 2—Stewardship, Compliance, and Accounting:

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. On or before April 30th, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 2—Stewardship, Compliance, and Accounting: (Continued)

3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Ordinance.
4. The Appropriations Ordinance places legal restrictions on expenditures at the Fund level. The appropriation for each Fund can be revised only by the City Council. The City Manager is authorized to transfer budgeted amounts within a specific Fund; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all City units.
8. All budget data presented in the accompanying financial statements is the original to the current comparison of the final budget and actual results.

Expenditures and Appropriations

Expenditures did not exceed appropriations in any fund at June 30, 2004.

Fund Deficits

The following funds had deficit balances at June 30, 2004:

Meals Tax	\$	63,907
City Grants Fund		385,782
School Grants Fund		166,952

Note 3—Deposits and Investments:

The City and Component Unit School Board cash and cash equivalents consist of pooled cash and investments.

Primary Government and Component Unit School Board:

Deposits - All cash of the primary government and its discretely presented component unit is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the Code of Virginia or covered by federal depository insurance. Under the act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 3—Deposits and Investments: (Continued)

Primary Government and Component Unit School Board: (continued)

Investments - Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), Asian Development Bank and the African Development Bank, commercial paper rate A-1 by Standard and Poor's Corporation of P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its safekeeping agent in the City's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agency in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by the counterparty's trust department (if a bank) or safekeeping agent but not in the City's name.

	<u>Category</u>			<u>Carrying Value</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Investments:					
None	\$ -	\$ -	\$ -	\$ -	\$ -
Deposits				\$ 6,992,934	
Total Deposits and Investments				\$ 6,992,931	
Cash and Petty Cash				6,535	
Total Cash and Cash Equivalents				\$ 6,999,466	

The following is a summary of cash and cash equivalents per fund financial statements:

Governmental funds - Cash and cash equivalents	\$ 546,839
Proprietary funds - Cash and cash equivalents	4,581,446
Fiduciary funds - Cash and cash equivalents	568,966
Discretely presented component unit School Board:	
Cash and cash equivalents	1,302,215
Total	\$ 6,999,466

The component unit school board is part of the City's pooled cash and has a net balance in the amount of \$1,302,215 at June 30, 2004.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 4—Due from Other Governments:

At June 30, 2004 the City has receivables from other governments as follows:

	Primary Government	Component Unit School Board
Commonwealth of Virginia:		
Local Sales Tax	\$ 155,803	\$ -
Street & Highway Maintenance	546,836	-
Fringe Benefits	-	46,655
State Sales Tax	-	179,540
Constitutional officer reimbursements	182,269	-
Miscellaneous grants	14,531	16,845
Tobacco settlement grant	250,000	-
Comprehensive service	45,047	-
Federal Government:		
School fund grants	-	373,894
Title VI-B	-	421,379
Other federal grants	<u>27,477</u>	<u>-</u>
Total due from other governments	\$ <u>1,221,963</u>	\$ <u>1,038,313</u>

Note 5—Inventory:

At June 30, 2004 the City has inventory recorded in the various funds as follows:

	Governmental Funds	Enterprise Funds
Expendable supplies	\$ 285,785	\$ 921,469
Land and building inventory held for resale:		
82 Commercial residential lots held for resale	1,151,281	-
3 Commercial buildings held for resale	109,082	-
47 acre parcel in Henry County, Virginia	<u>12,229</u>	<u>-</u>
Totals	\$ <u>1,558,377</u>	\$ <u>921,469</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 6—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ending June 30, 2004:

Primary Government:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>
<u>Governmental Activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 1,531,372	\$ -	\$ -	\$ 1,531,372
Capital assets being depreciated:				
Buildings	\$ 15,785,136	\$ -	\$ 809,375	\$ 14,975,761
Equipment	5,045,486	312,286	550,816	4,806,956
Total capital assets being depreciated	\$ 20,830,622	\$ 312,286	\$ 1,360,191	\$ 19,782,717
Less accumulated depreciation for:				
Buildings	\$ 3,820,327	\$ 359,790	\$ 117,383	\$ 4,062,734
Equipment	3,893,945	368,550	542,816	3,719,679
Total accumulated depreciation	\$ 7,714,272	\$ 728,340	\$ 660,199	\$ 7,782,413
Total capital assets being depreciated, net	\$ 13,116,350	\$ (416,054)	\$ 699,992	\$ 12,000,304
Governmental activities capital assets, net	\$ 14,647,722	\$ (416,054)	\$ 699,992	\$ 13,531,676

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type activities:				
Electric Fund:				
Capital assets being depreciated:				
Buildings and improvements	\$ 586,744	\$ -	\$ -	\$ 586,744
Equipment	1,776,233	-	-	1,776,233
Infrastructure	20,671,758	478,810	-	21,150,568
	<u>23,034,735</u>	<u>478,810</u>	<u>-</u>	<u>23,513,545</u>
Total capital assets being depreciated	\$ 23,034,735	\$ 478,810	\$ -	\$ 23,513,545
Less accumulated depreciation for:				
Buildings and improvements	\$ 585,197	\$ 129	\$ -	\$ 585,326
Equipment	1,537,800	55,343	-	1,593,143
Infrastructure	16,086,687	579,794	-	16,666,481
	<u>18,209,684</u>	<u>635,266</u>	<u>-</u>	<u>18,844,950</u>
Total accumulated depreciation	\$ 18,209,684	\$ 635,266	\$ -	\$ 18,844,950
Total capital assets being depreciated, net	<u>\$ 4,825,051</u>	<u>\$ (156,456)</u>	<u>\$ -</u>	<u>\$ 4,668,595</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type activities: (Continued)				
Water Fund:				
Capital assets not being depreciated:				
Land and land improvements	\$ 658,224	\$ -	\$ -	\$ 658,224
Capital assets being depreciated:				
Buildings and improvements	\$ 1,186,449	\$ -	\$ -	\$ 1,186,449
Equipment	1,069,372	-	-	1,069,372
Infrastructure	10,215,687	95,469	-	10,311,156
Total capital assets being depreciated	\$ 12,471,508	\$ 95,469	\$ -	\$ 12,566,977
Less accumulated depreciation for:				
Buildings and improvements	\$ 796,857	\$ 14,640	\$ -	\$ 811,497
Equipment	627,062	25,329	-	652,391
Infrastructure	7,263,103	177,161	-	7,440,264
Total accumulated depreciation	\$ 8,687,022	\$ 217,130	\$ -	\$ 8,904,152
Total capital assets being depreciated, net	\$ 3,784,486	\$ (121,661)	\$ -	\$ 3,662,825
Water fund capital assets, net	\$ 4,442,710	\$ (121,661)	\$ -	\$ 4,321,049

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type activities: (Continued)				
Sewer Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 25,400	\$ -	\$ -	\$ 25,400
Capital assets being depreciated:				
Buildings and improvements	\$ 1,031,542	\$ -	\$ -	\$ 1,031,542
Equipment	993,082	18,000	-	1,011,082
Infrastructure	15,018,701	89,966	-	15,108,667
Total capital assets being depreciated	\$ 17,043,325	\$ 107,966	\$ -	\$ 17,151,291
Less accumulated depreciation for:				
Buildings and building improvements	\$ 644,380	\$ 16,603	\$ -	\$ 660,983
Equipment	783,883	45,697	-	829,580
Infrastructure	9,989,573	453,269	-	10,442,842
Total accumulated depreciation	\$ 11,417,836	\$ 515,569	\$ -	\$ 11,933,405
Total capital assets being depreciated, net	\$ 5,625,489	\$ (407,603)	\$ -	\$ 5,217,886
Sewer fund capital assets, net	\$ 5,650,889	\$ (407,603)	\$ -	\$ 5,243,286

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type activities: (Continued)				
Refuse Collection/Landfill Fund:				
Capital assets being depreciated:				
Buildings and improvements	\$ 147,665	\$ -	\$ -	\$ 147,665
Equipment	<u>2,240,667</u>	<u>76,500</u>	<u>-</u>	<u>2,317,167</u>
Total capital assets being depreciated	<u>\$ 2,388,332</u>	<u>\$ 76,500</u>	<u>\$ -</u>	<u>\$ 2,464,832</u>
Less accumulated depreciation for:				
Buildings and building improvements	\$ 38,132	\$ 3,995	\$ -	\$ 42,127
Equipment	<u>1,382,973</u>	<u>179,932</u>	<u>-</u>	<u>1,562,905</u>
Total accumulated depreciation	<u>\$ 1,421,105</u>	<u>\$ 183,927</u>	<u>\$ -</u>	<u>\$ 1,605,032</u>
Total capital assets being depreciated, net	<u>\$ 967,227</u>	<u>\$ (107,427)</u>	<u>\$ -</u>	<u>\$ 859,800</u>
Business-type activities capital assets, net	<u>\$ 15,885,877</u>	<u>\$ (793,147)</u>	<u>\$ -</u>	<u>\$ 15,092,730</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Governmental activities:

Governmental activities:

General government	\$	47,709
Public safety		232,491
Public works		91,716
Health and welfare		8,132
Education		279,365
Parks, recreation and cultural		21,579
Community development		<u>47,348</u>

Total Governmental activities	\$	<u><u>728,340</u></u>
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Enterprise activities:

Electric	\$	635,266
Water		217,130
Sewer		515,569
Refuse collection / landfill		<u>183,927</u>

Total Enterprise activities	\$	<u><u>1,551,892</u></u>
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Component Unit School Board	\$	<u><u>220,598</u></u>
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CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 7—Interfund Transfers/Obligations:

Interfund transfers for the year ended June 30, 2004, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 3,005,177	\$ 226,586
City grants	108,950	-
Capital reserve	670,436	-
Meals tax	117,636	200,000
Electric	-	2,293,658
Water	-	711,519
Sewer	-	400,000
Refuse collection/landfill	200,000	270,436
Total	\$ <u>4,102,199</u>	\$ <u>4,102,199</u>
<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Primary Government:		
General Fund	\$ -	\$ 464,913
City grants	-	439,552
Meals tax	-	64,694
Refuse collection/landfill	969,159	-
Total	\$ <u>969,159</u>	\$ <u>969,159</u>
Component Unit - School Board		
School Fund	\$ 470,728	\$ -
School Grants	-	470,728
Total	\$ <u>470,728</u>	\$ <u>470,728</u>
Total Entity	\$ <u>1,439,887</u>	\$ <u>1,439,887</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 8—Long-Term Obligations:

Primary Government:

The following is a summary of change in long-term obligations for the fiscal year ending June 30, 2004:

	Amounts Payable at July 1, 2003	Increases	Decreases	Amounts Payable at June 30, 2004	Amounts Due Within One Year
Governmental Obligations:					
Incurred by City					
Claims, judgments and compensated absences payable	\$ 427,002	\$ 106,751	\$ 111,471	\$ 422,282	\$ 42,228
G.O. Bonds Series 1999	3,745,000	-	150,000	3,595,000	160,000
Capital lease obligations	578,264	127,000	202,480	502,784	117,409
Note payable	945,000	-	945,000	-	-
Total incurred by City	<u>\$ 5,695,266</u>	<u>\$ 233,751</u>	<u>\$ 1,408,951</u>	<u>\$ 4,520,066</u>	<u>\$ 319,637</u>
Incurred by School Board:					
State Literary Fund Loans	\$ 10,442,625	\$ -	\$ 663,525	\$ 9,779,100	\$ 663,525
Virginia Public Authority Subsidy Bonds	226,522	-	22,271	204,251	22,887
Capital lease obligations	419,675	-	123,579	296,096	128,434
Total incurred by School Board	<u>\$ 11,088,822</u>	<u>\$ -</u>	<u>\$ 809,375</u>	<u>\$ 10,279,447</u>	<u>\$ 814,846</u>
Total Governmental Obligations	<u>\$ 16,784,088</u>	<u>\$ 233,751</u>	<u>\$ 2,218,326</u>	<u>\$ 14,799,513</u>	<u>\$ 1,134,483</u>
Enterprise Obligations:					
Compensated absences	\$ 156,574	\$ 39,145	\$ 37,472	\$ 158,247	\$ 15,826
Capital lease obligations	344,371	-	230,303	114,068	114,068
Landfill closure and post-closure costs	3,129,625	164,261	-	3,293,886	-
Pooled loan bonds series 2000B	1,615,000	-	790,000	825,000	825,000
Total Enterprise Obligations	<u>\$ 5,245,570</u>	<u>\$ 203,406</u>	<u>\$ 1,057,775</u>	<u>\$ 4,391,201</u>	<u>\$ 954,894</u>

The City's general fund revenues are used to liquidate compensated absences and all other governmental obligations of the City. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 8—Long-Term Obligations: (Continued)**Primary Government: (Continued)**

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30	City Obligations			
	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2005	\$ 160,000	\$ 166,620	\$ 117,409	\$ 11,029
2006	165,000	159,875	120,236	8,202
2007	170,000	152,755	123,134	5,304
2008	180,000	145,140	126,104	2,334
2009	185,000	137,018	15,901	173
2010	195,000	128,419	-	-
2011	205,000	119,216	-	-
2012	215,000	109,398	-	-
2013	225,000	99,002	-	-
2014	235,000	88,018	-	-
2015	245,000	76,437	-	-
2016	255,000	64,248	-	-
2017	270,000	51,250	-	-
2018	285,000	37,375	-	-
2019	295,000	22,875	-	-
2020	310,000	7,756	-	-
Total	\$ <u>3,595,000</u>	\$ <u>1,565,402</u>	\$ <u>502,784</u>	\$ <u>27,042</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

School Obligations						
Year Ending June 30	State Literary Fund Loans		Virginia Public School Authority Subsidy Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 663,525	\$ 294,914	\$ 22,887	\$ 12,725	\$ 128,434	\$ 9,173
2006	663,525	274,623	23,545	11,193	133,480	4,127
2007	663,525	254,332	24,247	9,616	34,182	220
2008	663,525	234,041	24,998	7,991	-	-
2009	625,000	213,750	25,799	6,315	-	-
2010	625,000	195,000	26,656	4,584	-	-
2011	625,000	176,250	27,571	2,797	-	-
2012	625,000	157,500	28,548	942	-	-
2013	625,000	138,750	-	-	-	-
2014	625,000	120,000	-	-	-	-
2015	625,000	101,250	-	-	-	-
2016	625,000	82,500	-	-	-	-
2017	625,000	63,750	-	-	-	-
2018	375,000	45,000	-	-	-	-
2019	375,000	33,750	-	-	-	-
2020	375,000	22,500	-	-	-	-
2021	375,000	11,250	-	-	-	-
Total	\$ 9,779,100	\$ 2,419,160	\$ 204,251	\$ 56,163	\$ 296,096	\$ 13,520

Enterprise Obligations				
Year Ending June 30	Pooled Loan		Capital Leases	
	Principal	Interest	Principal	Interest
2005	\$ 825,000	\$ 38,362	\$ 114,068	\$ 1,862
Total	\$ 825,000	\$ 38,362	\$ 114,068	\$ 1,862

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

General Obligations:

Incurred by City:

\$4,145,000 payable in principal semi-annual installments ranging from \$115,000 to \$310,000 beginning July 15, 2000 through July 2019 interest payable semi-annually at 5.0492% \$ 3,595,000

Capital Lease Obligations:

\$127,000 obligation payable in monthly installments of \$2,296 through January 5, 2009, interest at 3.25% \$ 117,186

\$476,888 obligation payable in quarterly installments of \$25,221 through April 1, 2008, interest at 2.16% 385,598

Total capital lease obligations \$ 502,784

Compensated absences \$ 422,282

Total Incurred by City \$ 4,520,066

Incurred by School Board:

State Literary Fund Loans:

\$5,000,000 State Literary Fund loan issued January 28, 1997, due in annual principal installments of \$250,000 through 2017, interest payable annually at 3% \$ 3,250,000

\$146,673 State Literary Fund loan issued June 15, 1987, due in annual principal installments of \$7,400 through 2008; interest payable annually at 4% 29,600

\$94,229 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$4,800 through 2008; interest payable annually at 4% 19,200

\$67,413 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$3,400 through 2008; interest payable at 4% 13,600

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Incurred by School Board: (continued)

State Literary Fund Loans: (continued)

\$109,471 State Literary Fund Loan issued June 15, 1987, due in annual installments of \$5,700 through 2008; interest payable annually at 4%	\$ 22,800
\$252,442 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$13,000 through 2008; interest payable annually at 4%	52,000
\$84,454 State Literary Fund Loan issued August 1, 1987, due in annual principal installments of \$4,225 through 2008; interest payable annually at 4%	16,900
\$7,500,000 State Literary Fund Loan issued September 1, 2000, due in annual principal installments of \$375,000 through 2021; interest payable annually at 3%	<u>6,375,000</u>
Total State Literary Fund Loans	\$ <u>9,779,100</u>

Virginia Public Authority Subsidy Bonds:

\$438,631 Virginia Public Authority Subsidy Bonds issued in 1991, due in annual installments of varying amounts through 2012; interest payable annually at varying rates	204,251
--	---------

Capital Lease Obligation:

\$624,802 lease obligation payable in monthly installments of \$11,467 through September 12, 2006 interest at 3.86%	<u>296,096</u>
Total Incurred by the School Board	\$ <u>10,279,447</u>
Total Governmental Obligations	\$ <u><u>14,799,513</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Enterprise Obligations:

\$3,100,000 Pooled loan bond series 2000B payable in various annual installments,
through April 1, 2005 interest payable semi-annually at 4.5% to 4.65%

	\$	825,000
--	----	---------

Capital Lease Obligations:

\$332,205 lease obligation payable in monthly installments of \$9,661 through June 14,
2005 interest at 3%

		114,068
--	--	---------

Compensated absences		158,247
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Landfill closure and postclosure costs		<u>3,293,886</u>
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Total enterprise obligations	\$	<u><u>4,391,201</u></u>
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Note 9—Landfill Closure and Postclosure Costs:

State and federal laws and regulations require the City to place a final cover on each phase of its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste. In accordance with Statement 18 of the Governmental Accounting Standards Board entitled Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, the City reported a liability for a portion of these closure and postclosure care costs based on landfill capacity used. The \$3,293,886 reported as landfill closure and postclosure care liability at June 30, 2004 is based on the use of 92.0% of the estimated capacity used to date. The City will recognize the remaining estimated cost of closure and postclosure care of \$286,425 as the remaining estimated capacity is filled in the existing open cell. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. Actual closure and postclosure care costs may be higher due to inflation, changes in technology, or changes in regulations.

The City plans to meet all federal laws, regulations and test of financial assurance related to the financing of closure and postclosure care when they become effective.

The landfill is estimated to be closed in January 2006.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 10—Deferred Revenue:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$315,289 is comprised of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$165,785 at June 30, 2004.

Discretely Presented School Board - Deferred revenue represented unexpended NASA grant funds totaling \$149,504 at June 30, 2004.

Note 11—Contingent Liabilities:

Federal programs in which the City and all discretely presented component units participate were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

Note 12—Litigation:

At June 30, 2004, there were no matters of litigation involving the City or which would materially affect the City's financial position should any court decisions on pending matters not be favorable to such entities.

Note 13—Risk Management:

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries insurance.

The City is a member of the Virginia Municipal Group Self Insurance Association for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing.

Each Association member jointly and severally agrees to assume, pay and discharge any liability. The City pays Virginia Municipal Group contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The City continues to carry commercial insurance for all other risks of losses. During the last three fiscal years, settled claims from these risks have not exceeded commercial coverage.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 14—Defined Benefit Pension Plan:

Primary Government:

A. Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their reported compensation to the VRS. This 5% member contribution may be assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City and School Board non-professional employees contribution rates for the fiscal year ended 2004 were 10.25% and 8.75% of annual covered payroll, respectively.

The School Board's professional employees contributed \$432,833, \$383,842 and \$364,803 to the teacher cost-sharing pool for the fiscal years ended June 30, 2004, 2003 and 2002 respectively and these contributions represented 3.77%, 3.77%, and 1.98% respectively, of current covered payroll.

C. Annual Pension Cost

For fiscal 2004, the City's annual pension cost of \$1,165,747 was equal to the City's required and actuarial contributions. The required contributions were determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 14—Defined Benefit Pension Plan: (Continued)

Primary Government: (continued)

C. Annual Pension Cost (continued)

For fiscal 2004, the City School Board's annual pension cost for the Board's non-professional employees was \$66,852 which was equal to the Board's required and actuarial contributions. The required contributions were determined as a part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method.

	<u>City</u>	<u>Non-Professional School Board Employees</u>
Valuation date	June 30, 2003	June 30, 2003
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent, open	Level percent, open
Payroll growth rate	3%	3%
Remaining amortization period	18 years	21 years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return ¹	8.00%	8.00%
Projected salary increases: ¹		
Non LEO Employees	4.25% to 6.10%	4.25% to 6.10%
LEO Employees	4.50% to 5.75%	4.50% to 5.75%
Cost-of-living adjustments	3.0%	3.0%

¹ Includes inflation at 3%

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
City:			
June 30, 2004	\$ 1,165,747	100%	\$ -
June 30, 2003	1,280,666	100%	-
June 30, 2002	1,063,577	100%	-
School Board:			
Non-Professional:			
June 30, 2004	\$ 66,852	100%	\$ -
June 30, 2003	61,409	100%	-
June 30, 2002	69,140	100%	-

(1) Employer portion only

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2004 (Continued)

Note 15–Fund Balance/Net Asset Adjustments:

Net assets were adjusted because of unrecorded assets and errors noted in the prior year accumulated depreciation computation as follows:

	<u>Fund Balances</u>		<u>Net Asset Adjustment</u>		
	<u>General</u>	<u>Nonmajor</u>			
	<u>Fund</u>	<u>Governmental</u>	<u>Governmental</u>	<u>Proprietary</u>	<u>School</u>
		<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Board</u>
Net assets/retained earnings as previously reported	\$ 791,702	\$ (49,778)	\$ 734,162	\$ 17,179,026	\$ 4,077,875
Unrecorded assets	-	-	474,513	-	-
Change in accumulated depreciation computation	-	-	(32,370)	661,448	28,465
Reclassification of IDA Fund	-	170,364	170,364	-	-
Reclassification of Hooker Field Fund	12,954	-	-	-	-
Totals as restated	<u>\$ 804,656</u>	<u>\$ 120,586</u>	<u>\$ 1,346,669</u>	<u>\$ 17,840,474</u>	<u>\$ 4,106,340</u>

Note 16–Surety Bonds:

	<u>Amount</u>
Fidelity and Deposit Company of Maryland - Surety	
Faithful Performance of Duty Schedule Position Bond:	
Commonwealth Funds	
Ashby R. Pritchett, Clerk of the Circuit Court	\$ 25,000
Pat S. Conrad, Treasurer and/or W.W. Bartlett, Director of Finance	200,000
Ruth Easley, Commissioner of the Revenue	3,000
Steve M. Draper, Sheriff	30,000
The above constitutional officers and subordinate employees - blanket bond	50,000
Lumberman's Mutual Casualty Company - Surety City funds	
Pat S. Conrad, Treasurer	250,000
Travelers Indemnity Company - Surety	
All School Board employees - blanket bond	
The Aetna Casualty and Surety Company - Surety	
All City employees - blanket bond	
Honesty	100,000
Faithful performance	1,000,000

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REQUIRED SUPPLEMENTARY INFORMATION

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

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General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual

Year Ended June 30, 2004

	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 7,204,809	\$ 7,204,809	\$ 7,288,727	\$ 83,918
Other local taxes	6,312,515	6,312,515	6,072,452	(240,063)
Permits, privilege fees and regulatory licenses	96,800	96,800	69,393	(27,407)
Fines and forfeitures	212,500	212,500	221,076	8,576
Revenue from use of money and property	523,900	523,900	428,227	(95,673)
Charges for services	132,440	132,440	118,038	(14,402)
Miscellaneous	237,151	261,605	309,461	47,856
Recovered costs	875,645	1,084,182	947,939	(136,243)
Intergovernmental:				
Commonwealth	6,327,028	6,411,062	6,730,389	319,327
Federal	73,702	217,395	171,382	(46,013)
Total revenues	\$ 21,996,490	\$ 22,457,208	\$ 22,357,084	\$ (100,124)
Expenditures:				
Current:				
General government administration	\$ 3,345,319	\$ 3,248,760	\$ 3,088,115	\$ 160,645
Judicial administration	1,448,316	1,471,140	1,372,696	98,444
Public safety	7,611,798	7,939,401	7,845,641	93,760
Public works	3,217,478	3,423,890	3,667,769	(243,879)
Health and welfare	304,248	304,248	304,248	-
Education	6,877,797	6,877,797	6,877,698	99
Parks, recreation, and cultural	946,336	957,613	969,929	(12,316)
Community development	988,990	996,740	780,006	216,734
Debt service:				
Principal retirement	184,375	184,375	184,375	-
Interest and other fiscal charges	36,350	36,350	36,449	(99)
Total expenditures	\$ 24,961,007	\$ 25,440,314	\$ 25,126,926	\$ 313,388
Excess (deficiency) of revenues over expenditures	\$ (2,964,517)	\$ (2,983,106)	\$ (2,769,842)	\$ 213,264
Other financing sources (uses):				
Transfers in	\$ 3,005,177	\$ 3,005,177	\$ 3,005,177	\$ -
Transfers (out)	(226,586)	(226,586)	(226,586)	-
Total other financing sources (uses)	\$ 2,778,591	\$ 2,778,591	\$ 2,778,591	\$ -
Changes in fund balances	\$ (185,926)	\$ (204,515)	\$ 8,749	\$ 213,264
Fund balances at beginning of year	185,926	204,515	804,656	600,141
Fund balances at end of year	\$ -	\$ -	\$ 813,405	\$ 813,405

Required Supplementary Information
Schedule of Funding Progress for the Virginia Retirement System
Last Three Fiscal Years

City

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2003	\$ 48,121,238	\$ 57,424,641	\$ 9,303,403	83.80%	\$ 11,211,271	82.98%
6/30/2002	48,408,887	55,037,802	6,628,915	87.96%	11,617,548	57.06%
6/30/2001	47,516,392	50,994,115	3,477,723	93.18%	11,097,462	31.34%

Discretely Presented Component Unit - School Board
School Board Non-Professionals:

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2003	\$ 2,899,074	\$ 3,530,640	\$ 631,566	82.11%	\$ 747,072	84.54%
6/30/2002	2,990,962	3,500,850	509,888	85.44%	801,797	63.59%
6/30/2001	2,990,586	3,312,491	321,905	90.28%	724,359	44.44%

OTHER SUPPLEMENTARY INFORMATION

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Combining and Individual Fund Statements and Schedules

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Nonmajor Governmental Funds
Combining Balance Sheet
At June 30, 2004

	Special Revenue Funds		Capital Projects Funds		
	City Grants Fund	Housing Choice Fund	Capital Reserve Fund	Meals Tax Fund	Total
ASSETS					
Cash and cash equivalents	\$ 51,237	\$ 217,006	\$ 273,366	\$ -	\$ 541,609
Accounts receivable	-	415	-	787	1,202
Due from other governments	45,047	-	270,771	-	315,818
Total assets	<u>\$ 96,284</u>	<u>\$ 217,421</u>	<u>\$ 544,137</u>	<u>\$ 787</u>	<u>\$ 858,629</u>
LIABILITIES					
Accounts payable	\$ 42,514	\$ 2,419	\$ 59,834	\$ -	\$ 104,767
Due to other funds	439,552	-	-	64,694	504,246
Total liabilities	<u>\$ 482,066</u>	<u>\$ 2,419</u>	<u>\$ 59,834</u>	<u>\$ 64,694</u>	<u>\$ 609,013</u>
FUND BALANCE					
Fund balance:					
Designated for capital projects (deficit)	\$ -	\$ -	\$ 484,303	\$ (63,907)	\$ 420,396
Unreserved (deficit)	(385,782)	215,002	-	-	(170,780)
Total fund balances	<u>\$ (385,782)</u>	<u>\$ 215,002</u>	<u>\$ 484,303</u>	<u>\$ (63,907)</u>	<u>\$ 249,616</u>
Total liabilities and fund balances	<u>\$ 96,284</u>	<u>\$ 217,421</u>	<u>\$ 544,137</u>	<u>\$ 787</u>	<u>\$ 858,629</u>

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2004

	Special Revenue Funds		Capital Projects Funds		
	City Grants Fund	Housing Choice Fund	Capital Reserve Fund	Meals Tax Fund	Total
Revenues:					
Other local taxes	\$ -	\$ -	\$ -	\$ 1,039,988	\$ 1,039,988
Revenue from use of money and property	47,707	3,684	5,475	-	56,866
Miscellaneous	14,290	9,053	7,356	-	30,699
Intergovernmental:					
Commonwealth	127,017	-	11,593	139,992	278,602
Federal	217,517	2,001,260	95,310	-	2,314,087
Total revenues	\$ 406,531	\$ 2,013,997	\$ 119,734	\$ 1,179,980	\$ 3,720,242
Expenditures:					
General government administration	\$ -	\$ -	\$ -	\$ 35,190	\$ 35,190
Health and welfare	257,720	-	-	-	257,720
Planning and community development	363,828	1,853,332	-	-	2,217,160
Capital outlays	-	-	677,481	-	677,481
Capital projects	-	-	110,432	-	110,432
Debt service:					
Principal retired on debt	-	-	1,020,000	701,964	1,721,964
Interest and fiscal charges	-	-	177,212	395,075	572,287
Total expenditures	\$ 621,548	\$ 1,853,332	\$ 1,985,125	\$ 1,132,229	\$ 5,592,234
Excess (deficiency) of revenues over expenditures	\$ (215,017)	\$ 160,665	\$ (1,865,391)	\$ 47,751	\$ (1,871,992)
Other financing sources:					
Proceeds from debt issued	\$ -	\$ -	\$ 127,000	\$ -	\$ 127,000
Sale of property	-	-	1,177,000	-	1,177,000
Transfers in	108,950	-	670,436	117,636	897,022
Transfers (out)	-	-	-	(200,000)	(200,000)
Total other financing sources (uses)	\$ 108,950	\$ -	\$ 1,974,436	\$ (82,364)	\$ 2,001,022
Changes in fund balances	\$ (106,067)	\$ 160,665	\$ 109,045	\$ (34,613)	\$ 129,030
Fund balances at beginning of year, as restated	(279,715)	54,337	375,258	(29,294)	120,586
Fund balances at end of year	\$ (385,782)	\$ 215,002	\$ 484,303	\$ (63,907)	\$ 249,616

Combining Schedule of Fiduciary Net Assets -
 Agency Funds
 At June 30, 2004

				West Piedmont Business Development Center Fund	Police Academy Fund	
	Insurance Fund	Sheriff's Fund				Total
ASSETS						
Cash and cash equivalents	\$ 209,877	\$ 96,072	\$ -	\$ 263,017	\$	568,966
Total assets	\$ 209,877	\$ 96,072	\$ -	\$ 263,017	\$	568,966
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ 3,834	\$ 2,043	\$	5,877
Amounts held for others	209,877	96,072	(3,834)	260,974		563,089
Total liabilities	\$ 209,877	\$ 96,072	\$ -	\$ 263,017	\$	568,966

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Insurance Fund:				
Assets:				
Cash	\$ 194,088	\$ 2,382,668	\$ 2,366,879	\$ 209,877
Total assets	<u>\$ 194,088</u>	<u>\$ 2,382,668</u>	<u>\$ 2,366,879</u>	<u>\$ 209,877</u>
Liabilities:				
Amounts held for others	\$ 194,088	\$ 2,382,668	\$ 2,366,879	\$ 209,877
Total liabilities	<u>\$ 194,088</u>	<u>\$ 2,382,668</u>	<u>\$ 2,366,879</u>	<u>\$ 209,877</u>
Sheriff Funds:				
Assets:				
Cash	\$ 99,687	\$ 308,170	\$ 311,785	\$ 96,072
Total assets	<u>\$ 99,687</u>	<u>\$ 308,170</u>	<u>\$ 311,785</u>	<u>\$ 96,072</u>
Liabilities:				
Amounts held for others	\$ 99,687	\$ 308,170	\$ 311,785	\$ 96,072
Total liabilities	<u>\$ 99,687</u>	<u>\$ 308,170</u>	<u>\$ 311,785</u>	<u>\$ 96,072</u>
WPBDC Fund:				
Assets:				
Cash	\$ -	\$ 179,292	\$ 179,292	\$ -
Accounts receivable	-	9,996	9,996	-
Total assets	<u>\$ -</u>	<u>\$ 189,288</u>	<u>\$ 189,288</u>	<u>\$ -</u>
Liabilities:				
Accounts payable	\$ -	\$ 3,834	\$ -	\$ 3,834
Amounts held for others	-	185,454	189,288	(3,834)
Total liabilities	<u>\$ -</u>	<u>\$ 189,288</u>	<u>\$ 189,288</u>	<u>\$ -</u>
Police Academy Fund:				
Assets:				
Cash	\$ 216,414	\$ 223,479	\$ 176,876	\$ 263,017
Accounts receivable	1,261	-	1,261	-
Total assets	<u>\$ 217,675</u>	<u>\$ 223,479</u>	<u>\$ 178,137</u>	<u>\$ 263,017</u>
Liabilities:				
Accounts payable	\$ 2,422	\$ 2,043	\$ 2,422	\$ 2,043
Amounts held for others	215,253	221,436	175,715	260,974
Total liabilities	<u>\$ 217,675</u>	<u>\$ 223,479</u>	<u>\$ 178,137</u>	<u>\$ 263,017</u>
Total -- All Agency Funds				
Assets:				
Cash	\$ 510,189	\$ 3,093,609	\$ 3,034,832	\$ 568,966
Accounts receivable	1,261	9,996	11,257	-
Total assets	<u>\$ 511,450</u>	<u>\$ 3,103,605</u>	<u>\$ 3,046,089</u>	<u>\$ 568,966</u>
Liabilities:				
Accounts payable	\$ 2,422	\$ 5,877	\$ 2,422	\$ 5,877
Amounts held for others	509,028	3,097,728	3,043,667	563,089
Total liabilities	<u>\$ 511,450</u>	<u>\$ 3,103,605</u>	<u>\$ 3,046,089</u>	<u>\$ 568,966</u>

Discretely Presented Component Unit-School Board

Combining Balance Sheet

Discretely Presented Component Unit -- School Board

At June 30, 2004

	School Operating Fund	School Cafeteria Fund	School Grants Fund	Totals
ASSETS				
Assets:				
Cash and cash equivalents	\$ 1,203,956	\$ 98,259	\$ -	\$ 1,302,215
Due from other governmental units	689,926	-	365,453	1,055,379
Due from other funds	470,728	-	-	470,728
Total assets	<u>\$ 2,364,610</u>	<u>\$ 98,259</u>	<u>\$ 365,453</u>	<u>\$ 2,828,322</u>
LIABILITIES				
Accounts payable	\$ 275,083	\$ 1,618	\$ 1,050	\$ 277,751
Deferred revenue	149,504	-	-	149,504
Accrued liabilities	792,039	25,799	60,627	878,465
Due to other funds	-	-	470,728	470,728
Total liabilities	<u>\$ 1,216,626</u>	<u>\$ 27,417</u>	<u>\$ 532,405</u>	<u>\$ 1,776,448</u>
FUND BALANCES				
Unreserved:				
Undesignated (deficit)	<u>\$ 1,147,984</u>	<u>\$ 70,842</u>	<u>\$ (166,952)</u>	<u>\$ 1,051,874</u>
Total fund balances	<u>\$ 1,147,984</u>	<u>\$ 70,842</u>	<u>\$ (166,952)</u>	<u>\$ 1,051,874</u>
Total liabilities and fund balances	<u>\$ 2,364,610</u>	<u>\$ 98,259</u>	<u>\$ 365,453</u>	

Detailed explanation of adjustments from fund statements to government-wide statement of net assets:

Capital assets used in governmental activities are not financial resources and,
therefore are not reported in the funds.

3,565,334

Net assets of General Government Activities

\$ 4,617,208

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds - Discretely Presented Component Unit - School Board
 Year Ended June 30, 2004

	School Operating Fund	School Cafeteria Fund	School Grants Fund	Total
Revenues:				
Revenue from use of money and property	\$ 9,524	\$ 89	\$ -	\$ 9,613
Charges for services	65,888	401,564	-	467,452
Miscellaneous	144,308	-	-	144,308
Intergovernmental:				
Local government	6,862,967	-	-	6,862,967
Commonwealth	11,724,727	15,042	-	11,739,769
Federal	1,151,436	540,099	1,824,306	3,515,841
Total revenues	\$ 19,958,850	\$ 956,794	\$ 1,824,306	\$ 22,739,950
Expenditures:				
Current:				
Education	\$ 20,020,217	\$ 932,723	\$ 1,808,577	\$ 22,761,517
Total expenditures	\$ 20,020,217	\$ 932,723	\$ 1,808,577	\$ 22,761,517
Changes in fund balances	\$ (61,367)	\$ 24,071	\$ 15,729	\$ (21,567)
Fund balances at beginning of year	1,209,351	46,771	(182,681)	1,073,441
Fund balances at end of year	\$ 1,147,984	\$ 70,842	\$ (166,952)	\$ 1,051,874

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Revenues, Expenditures and Changes in Fund Balances --
 Budget and Actual -- Discretely Presented Component Unit - School Board
 Year Ended June 30, 2004

	School Operating Fund			Variance From Final Budget Positive (Negative)
	Original Budget	Budget As Amended	Actual	
Revenues:				
Revenue from use of money and property	\$ 5,500	\$ 5,500	\$ 9,524	\$ 4,024
Charges for services	35,000	35,000	65,888	30,888
Miscellaneous	-	169,272	144,308	(24,964)
Intergovernmental:				
Local government	6,863,066	6,863,066	6,862,967	(99)
Commonwealth	11,833,965	12,454,090	11,724,727	(729,363)
Federal	465,564	598,439	1,151,436	552,997
Total revenues	<u>\$ 19,203,095</u>	<u>\$ 20,125,367</u>	<u>\$ 19,958,850</u>	<u>\$ (166,517)</u>
Expenditures:				
Current:				
Education	\$ 19,291,095	\$ 20,761,968	\$ 20,020,217	\$ 741,751
Total expenditures	<u>\$ 19,291,095</u>	<u>\$ 20,761,968</u>	<u>\$ 20,020,217</u>	<u>\$ 741,751</u>
Changes in fund balances	\$ (88,000)	\$ (636,601)	\$ (61,367)	\$ 575,234
Fund balances at beginning of year	<u>88,000</u>	<u>636,601</u>	<u>1,209,351</u>	<u>572,750</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,147,984</u>	<u>\$ 1,147,984</u>

School Cafeteria Fund			
Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
\$ 7,092	\$ 7,092	\$ 89	\$ (7,003)
567,704	567,704	401,564	(166,140)
-	-	-	-
-	-	-	-
16,833	16,833	15,042	(1,791)
495,605	495,605	540,099	44,494
\$ 1,087,234	\$ 1,087,234	\$ 956,794	\$ (130,440)
\$ 1,087,234	\$ 1,087,234	\$ 932,723	\$ 154,511
\$ 1,087,234	\$ 1,087,234	\$ 932,723	\$ 154,511
\$ -	\$ -	\$ 24,071	\$ 24,071
-	-	46,771	46,771
\$ -	\$ -	\$ 70,842	\$ 70,842

Discretely Presented Component Unit - School Board
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds to the Statement of Activities
 Year Ended June 30, 2004

Net changes in fund balances - total governmental funds	\$ (21,567)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period computed as follows:

Capital outlays	61,041
Depreciation expense	(220,598)

School Board capital assets are jointly owned by the City and School Board. The City share of School Board capital assets is in proportion to the debt owed on such by the City. The transfers to the School Board are affected by the relationship of the debt to assets on a year to year basis. The net transfer resulting from this relationship reduced the transfers to the School Board.

691,992

Changes in net assets of governmental activities	\$ <u>510,868</u>
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The accompanying notes to financial statements are an integral part of this statement.

Supporting Schedules

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Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2004

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government:				
General Fund:				
General property taxes:				
Real property taxes	\$ 5,417,079	\$ 5,417,079	\$ 5,436,016	\$ 18,937
Personal property taxes	695,485	695,485	648,470	(47,015)
Business equipment	705,936	705,936	818,896	112,960
Machinery and tools taxes	256,309	256,309	251,949	(4,360)
Penalties	75,000	75,000	85,473	10,473
Interest and costs	55,000	55,000	47,923	(7,077)
Total general property taxes	\$ 7,204,809	\$ 7,204,809	\$ 7,288,727	\$ 83,918
Other local taxes:				
Local sales and use taxes	\$ 2,100,000	\$ 2,100,000	\$ 2,048,135	\$ (51,865)
Consumers' utility taxes	777,190	777,190	764,038	(13,152)
Business license tax	1,577,490	1,577,490	1,488,635	(88,855)
Franchise license taxes	166,176	166,176	171,429	5,253
Motor vehicle licenses	230,000	230,000	227,252	(2,748)
Bank franchise tax	360,289	360,289	273,677	(86,612)
E-911 surcharge	201,723	201,723	198,035	(3,688)
Taxes on recordation and wills	86,087	86,087	49,573	(36,514)
Grantor tax	15,000	15,000	13,877	(1,123)
Telephone tax	579,000	579,000	587,291	8,291
Cigarette tax	200,000	200,000	234,198	34,198
Rental tax	4,560	4,560	4,676	116
Transient room tax	15,000	15,000	11,636	(3,364)
Total other local taxes	\$ 6,312,515	\$ 6,312,515	\$ 6,072,452	\$ (240,063)
Permits, privilege fees and regulatory licenses:				
Animal licenses	\$ 2,000	\$ 2,000	\$ 2,039	\$ 39
Other permits and licenses	94,800	94,800	67,354	(27,446)
Total permits, privilege fees and regulatory licenses	\$ 96,800	\$ 96,800	\$ 69,393	\$ (27,407)
Fines and Forfeitures:				
Court fines and forfeitures	\$ 210,000	\$ 210,000	\$ 219,025	\$ 9,025
Other fines and forfeitures	2,500	2,500	2,051	(449)
Total fines and forfeitures	\$ 212,500	\$ 212,500	\$ 221,076	\$ 8,576
Revenue from use of money and property:				
Revenue from use of money	\$ 65,000	\$ 65,000	\$ 54,156	\$ (10,844)
Revenue from use of property	458,900	458,900	374,071	(84,829)
Total revenue from use of money and property	\$ 523,900	\$ 523,900	\$ 428,227	\$ (95,673)
Charges for services:				
Sheriff fees	\$ 4,000	\$ 4,000	\$ 3,625	\$ (375)
Courthouse maintenance fees	18,000	18,000	17,070	(930)
Court appointed attorney fees	3,000	3,000	4,547	1,547
Court house security fees	16,800	16,800	17,000	200
Document reproduction fee	5,400	5,400	3,616	(1,784)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2004 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Charges for services: (Continued)				
Remote access fee	\$ 2,500	\$ 2,500	\$ 2,386	\$ (114)
Commonwealth attorney fees	2,000	2,000	1,997	(3)
Other public safety fees	7,790	7,790	8,649	859
Recreation fees	36,400	36,400	25,188	(11,212)
Prison farm labor / street maintenance	29,000	29,000	24,000	(5,000)
Other charges for services	7,550	7,550	9,960	2,410
Total charges for services	\$ 132,440	\$ 132,440	\$ 118,038	\$ (14,402)
Miscellaneous revenue:				
Payment in lieu of tax	\$ 200,911	\$ 200,911	\$ 200,911	\$ -
Other miscellaneous revenue	36,240	60,694	108,550	47,856
Total miscellaneous revenue	\$ 237,151	\$ 261,605	\$ 309,461	\$ 47,856
Recovered costs:				
Boarding of prisoners	\$ 10,000	\$ 10,000	\$ 11,061	\$ 1,061
WW Moore	80,000	80,000	-	(80,000)
SSI / LIDS	3,000	3,000	3,200	200
Juvenile and domestic relations court	5,000	5,000	3,952	(1,048)
Meals tax administration	35,190	35,190	35,190	-
Rental assistance	8,235	8,235	-	(8,235)
Demolition	-	-	2,290	2,290
Advance / recovered cost	30,000	31,818	45,813	13,995
Health department	8,000	8,000	-	(8,000)
Juror and witness	20,000	20,000	14,021	(5,979)
Pay phone commissions	-	-	40	40
National guard armory	14,000	14,000	-	(14,000)
Medical co-pay reimbursement	12,000	12,000	14,477	2,477
VML self insurance dividend	44,000	44,000	25,900	(18,100)
Treasurer	1,500	1,500	2,446	946
Gateway greenhouse	-	-	1,576	1,576
Workforce	-	-	9,749	9,749
Liberty street project	-	205,205	205,205	-
Collection expense	9,000	9,000	9,000	-
Billing expense	345,251	345,251	321,564	(23,687)
Safety expense	65,493	65,493	65,493	-
Communication	73,736	73,736	73,736	-
Central garage	22,740	22,740	22,740	-
Engineering	68,000	68,000	58,995	(9,005)
Senior citizens	2,000	3,514	3,791	277
Social services	10,000	10,000	10,008	8
Program income	1,000	1,000	1,163	163
Senior citizens - transportation	4,500	4,500	3,529	(971)
Fiscal agent fees - regional library	3,000	3,000	3,000	-
Total recovered costs	\$ 875,645	\$ 1,084,182	\$ 947,939	\$ (136,243)
Total revenue from local sources	\$ 15,595,760	\$ 15,828,751	\$ 15,455,313	\$ (373,438)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2004 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 9,038	\$ 9,038	\$ 23,510	\$ 14,472
Wine taxes	9,474	9,474	14,573	5,099
PPTRA	655,434	655,434	635,431	(20,003)
Rolling stock tax	10,000	10,000	8,853	(1,147)
Auto rental tax	45,000	45,000	44,494	(506)
Recordation tax	-	-	14,604	14,604
Total noncategorical aid	\$ 728,946	\$ 728,946	\$ 741,465	\$ 12,519
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 267,676	\$ 283,215	\$ 268,713	\$ (14,502)
Sheriff	1,589,523	1,589,523	1,633,952	44,429
Commissioner of the Revenue	91,016	91,016	90,712	(304)
Treasurer	84,191	84,191	84,711	520
Medical examiner	500	500	360	(140)
Registrar/electoral board	34,660	34,660	37,099	2,439
Clerk of the circuit court	219,042	219,864	214,667	(5,197)
Total shared expenses	\$ 2,286,608	\$ 2,302,969	\$ 2,330,214	\$ 27,245
Other categorical aid:				
Senior citizens	\$ 11,836	\$ 11,836	\$ 11,057	\$ (779)
DCJS resource officer grant	-	25,969	25,966	(3)
Confiscated assets - police	-	23,736	22,686	(1,050)
Victim witness	13,926	12,700	49,882	37,182
House Bill # 599 - police	582,082	582,082	582,084	2
EMS two for life	5,600	5,600	-	(5,600)
Fire grant	20,661	20,661	23,002	2,341
Street maintenance	2,182,787	2,182,787	2,187,342	4,555
Liberty street engineering	126,000	126,000	369,511	243,511
Jail per diem	368,582	368,582	349,004	(19,578)
Rescue squad assistance	-	7,906	7,729	(177)
Library of Virginia	-	3,510	3,510	-
Fire training grant	-	2,098	2,098	-
Other categorical aid	-	5,680	24,839	19,159
Total other categorical aid	\$ 3,311,474	\$ 3,379,147	\$ 3,658,710	\$ 279,563
Total categorical aid	\$ 5,598,082	\$ 5,682,116	\$ 5,988,924	\$ 306,808
Total revenue from the Commonwealth	\$ 6,327,028	\$ 6,411,062	\$ 6,730,389	\$ 319,327

Governmental Funds and Discretely Presented Component Unit - School Board

Schedule of Revenues -- Budget and Actual

Year Ended June 30, 2004 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ 55,702	\$ 56,088	\$ -	\$ (56,088)
Law enforcement block grant	-	15,353	15,353	-
Bulletproof vest grant	-	236	1,159	923
DMV grant - police	-	6,518	11,095	4,577
DCJS - police grant	-	4,952	4,952	-
Senior citizens	18,000	19,932	24,516	4,584
SCAAP funds	-	2,637	2,637	-
Domestic preparedness grant	-	111,679	111,670	(9)
Total categorical aid	\$ 73,702	\$ 217,395	\$ 171,382	\$ (46,013)
Total revenue from the Federal Government	\$ 73,702	\$ 217,395	\$ 171,382	\$ (46,013)
Total General Fund	\$ 21,996,490	\$ 22,457,208	\$ 22,357,084	\$ (100,124)
Special Revenue Funds:				
Grants Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 4,720	\$ 4,720	\$ 10,563	\$ 5,843
Revenue from use of property	71,169	71,169	37,144	(34,025)
Total revenue from use of money and property	\$ 75,889	\$ 75,889	\$ 47,707	\$ (28,182)
Miscellaneous revenue:				
Other miscellaneous funds	\$ -	\$ -	\$ 14,290	\$ 14,290
Total miscellaneous revenue	\$ -	\$ -	\$ 14,290	\$ 14,290
Total revenue from local sources	\$ 75,889	\$ 75,889	\$ 61,997	\$ (13,892)
Revenue from the Commonwealth:				
Other categorical aid:				
Comprehensive services	\$ -	\$ -	\$ 125,017	\$ 125,017
Indoor plumbing	296,100	296,100	2,000	(294,100)
Total revenue from the Commonwealth	\$ 296,100	\$ 296,100	\$ 127,017	\$ (169,083)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2004 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Special Revenue Funds: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Community development block grant	\$ 626,276	\$ 864,492	\$ 126,008	\$ (738,484)
CDBG - West Church Corridor improvement	-	-	33,309	33,309
Indoor plumbing	-	-	58,200	58,200
Total revenue from the Federal Government	\$ 626,276	\$ 864,492	\$ 217,517	\$ (646,975)
Total Grants Fund	\$ 998,265	\$ 1,236,481	\$ 406,531	\$ (829,950)
Housing Choice Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 5,100	\$ 5,100	\$ 3,684	\$ (1,416)
Miscellaneous revenue:				
Miscellaneous funds	2,480	2,480	9,053	6,573
Total revenue from local sources	\$ 7,580	\$ 7,580	\$ 12,737	\$ 5,157
Revenue from the federal government:				
Categorical aid:				
Housing assistance	\$ 1,587,324	\$ 1,587,324	\$ 1,856,207	\$ 268,883
Moderate rehab. assistance	176,508	176,508	145,053	(31,455)
Other federal assistance	247,473	247,473	-	(247,473)
Total revenue from the Federal Government	\$ 2,011,305	\$ 2,011,305	\$ 2,001,260	\$ (10,045)
Total Housing Choice Fund	\$ 2,018,885	\$ 2,018,885	\$ 2,013,997	\$ (4,888)
Total Special Revenue Funds	\$ 3,017,150	\$ 3,255,366	\$ 2,420,528	\$ (834,838)
Capital Projects Funds:				
Capital Reserve Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of property	\$ -	\$ -	\$ 5,475	\$ 5,475
Total revenue from use of money and property	\$ -	\$ -	\$ 5,475	\$ 5,475
Miscellaneous revenue:				
Miscellaneous	80,000	87,356	7,356	(80,000)
Total revenue from local sources	\$ 80,000	\$ 87,356	\$ 12,831	\$ (74,525)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2004 (Continued)

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Budget As Amended</u>	<u>Actual</u>	<u>Variance From Final Budget Positive (Negative)</u>
Primary Government: (Continued)				
Capital Projects Funds: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Rail trail / VDOT	\$ -	\$ 3,841	\$ 11,593	\$ 7,752
Total revenue from the Commonwealth	\$ -	\$ 3,841	\$ 11,593	\$ 7,752
Revenue from the Federal Government:				
Categorical aid:				
Fire act grant	\$ -	\$ 71,244	\$ 71,244	\$ -
COPS technology grant	-	24,838	24,066	(772)
Total revenue from the federal government	\$ -	\$ 96,082	\$ 95,310	\$ (772)
Total Capital Reserve Fund	<u>\$ 80,000</u>	<u>\$ 187,279</u>	<u>\$ 119,734</u>	<u>\$ (67,545)</u>
Meals Tax Fund:				
Revenue from local sources:				
Other local taxes:				
Meals taxes	\$ 1,091,418	\$ 1,091,418	\$ 1,039,988	\$ (51,430)
Revenue from the Commonwealth:				
Categorical aid:				
School construction	139,958	139,958	139,992	34
Total Meals Tax Fund	<u>\$ 1,231,376</u>	<u>\$ 1,231,376</u>	<u>\$ 1,179,980</u>	<u>\$ (51,396)</u>
Total Capital Projects Funds	<u>\$ 1,311,376</u>	<u>\$ 1,418,655</u>	<u>\$ 1,299,714</u>	<u>\$ (118,941)</u>
Grand Total Revenues -- Primary Government	<u>\$ 26,325,016</u>	<u>\$ 27,131,229</u>	<u>\$ 26,077,326</u>	<u>\$ (1,053,903)</u>
Component Unit-School Board:				
Governmental Funds:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of property	\$ 5,500	\$ 5,500	\$ 9,524	\$ 4,024
Charges for services:				
Tuition and other charges for services	35,000	35,000	65,888	30,888
Miscellaneous revenue:				
Miscellaneous revenue	-	169,272	144,308	(24,964)
Total revenue from local sources	\$ 40,500	\$ 209,772	\$ 219,720	\$ 9,948
Intergovernmental revenue:				
Revenues from local governments:				
Contribution from City of Martinsville, Virginia	\$ 6,863,066	\$ 6,863,066	\$ 6,862,967	\$ (99)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2004 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit-School Board: (Continued)				
Governmental Funds: (Continued)				
School Operating Fund: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 2,001,082	\$ 2,001,082	\$ 2,062,213	\$ 61,131
Basic school aid	5,979,542	5,979,542	5,757,532	(222,010)
Share of fringe benefits - Fica	362,492	362,492	366,104	3,612
Share of fringe benefits - VRS	210,060	210,060	212,153	2,093
Lottery proceeds	416,541	416,541	407,618	(8,923)
Vocational SOQ payments	202,484	202,484	198,129	(4,355)
Special education - basic	938,113	938,113	917,935	(20,178)
At risk students	214,527	214,527	209,877	(4,650)
Remedial education	135,608	135,608	132,692	(2,916)
Reduced K-3	341,677	341,677	300,362	(41,315)
Textbooks	139,993	139,993	136,981	(3,012)
Technology	206,000	270,013	270,013	-
Other state funds	685,846	1,241,958	753,118	(488,840)
Total revenue from the Commonwealth	\$ 11,833,965	\$ 12,454,090	\$ 11,724,727	\$ (729,363)
Revenue from the federal government:				
Categorical aid:				
Vocational education - Carl Perkins	\$ 57,068	\$ 57,068	\$ 42,952	\$ (14,116)
Special education - pre-school incentive	-	-	14,532	14,532
Special education - flow through	372,579	442,954	531,157	88,203
Special education - sliver grant	-	-	31,828	31,828
ROTC instructors	35,917	35,917	39,090	3,173
School to work	-	-	26,626	26,626
Assistive technology	-	-	1,337	1,337
NASA program	-	62,500	125,895	63,395
Vocational education - tech. prep.	-	-	158	158
Workforce investment act	-	-	71,227	71,227
Title IV	-	-	260,604	260,604
Title III	-	-	6,030	6,030
Total categorical aid	\$ 465,564	\$ 598,439	\$ 1,151,436	\$ 552,997
Total revenue from the federal government	\$ 465,564	\$ 598,439	\$ 1,151,436	\$ 552,997
Total School Operating Fund	\$ 19,203,095	\$ 20,125,367	\$ 19,958,850	\$ (166,517)

Governmental Funds and Discretely Presented Component Unit - School Board

Schedule of Revenues -- Budget and Actual

Year Ended June 30, 2004 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit-School Board: (Continued)				
School Cafeteria Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 7,092	\$ 7,092	\$ 89	\$ (7,003)
Charges for services:				
Cafeteria sales	\$ 567,704	\$ 567,704	\$ 401,564	\$ (166,140)
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 16,833	\$ 16,833	\$ 15,042	\$ (1,791)
Revenue from the federal government:				
Categorical aid:				
School food	\$ 495,605	\$ 495,605	\$ 540,099	\$ 44,494
Total School Cafeteria Fund	\$ 1,087,234	\$ 1,087,234	\$ 956,794	\$ (130,440)
School Grants Fund:				
Revenue from the federal government:				
Categorical aid:				
Title I	\$ -	\$ 830,363	\$ 676,348	\$ (154,015)
Title II - teacher quality	-	214,263	190,856	(23,407)
Title II - technology	-	15,692	46,099	30,407
Title V - innovative program	-	21,850	21,849	(1)
Title VI - rural education	-	82,685	82,685	-
Drug free schools	-	35,218	31,790	(3,428)
Class size reduction	-	400	400	-
Reading first	-	309,410	227,434	(81,976)
Class size reduction	-	27,847	27,847	-
Patrick Henry CSR grant	-	97,708	97,707	(1)
Even start	-	237,649	226,605	(11,044)
Blue ridge east tech grant	-	305,098	194,686	(110,412)
Total revenue from the federal government	\$ -	\$ 2,178,183	\$ 1,824,306	\$ (353,877)
Total School Grants Fund	\$ -	\$ 2,178,183	\$ 1,824,306	\$ (353,877)
Grand Total Revenues--Component Unit - School Board	\$ 20,290,329	\$ 23,390,784	\$ 22,739,950	\$ (650,834)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2004

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government:				
General Fund:				
General Government Administration:				
Legislative:				
City council	\$ 39,880	\$ 63,936	\$ 63,629	\$ 307
General and Financial Administration:				
Clerk of council	\$ 13,167	\$ 13,167	\$ 12,031	\$ 1,136
City manager's office	206,578	206,578	200,482	6,096
Legal services	33,195	33,195	32,449	746
Human resources	129,234	129,234	125,883	3,351
Employment services	265,560	265,560	230,307	35,253
Customer services	48,982	48,982	42,595	6,387
Communications	73,736	73,736	66,389	7,347
Commissioner of the Revenue	326,392	326,692	318,650	8,042
Assessor	300	-	-	-
Treasurer	228,379	228,379	218,021	10,358
Finance director	84,731	85,960	84,913	1,047
Accounting	165,901	165,901	162,866	3,035
Utility billing	345,251	345,251	321,564	23,687
Information services	243,734	243,734	238,864	4,870
Central garage	436,128	436,128	426,870	9,258
Purchasing	211,519	211,519	212,639	(1,120)
Risk management	130,000	130,000	130,377	(377)
General expenses	266,476	144,632	114,674	29,958
Total general and financial administration	\$ 3,209,263	\$ 3,088,648	\$ 2,939,574	\$ 149,074
Board of Elections:				
Electoral board and officials	\$ 19,515	\$ 19,515	\$ 17,156	\$ 2,359
Registrar	76,661	76,661	67,756	8,905
Total board of elections	\$ 96,176	\$ 96,176	\$ 84,912	\$ 11,264
Total general government administration	\$ 3,345,319	\$ 3,248,760	\$ 3,088,115	\$ 160,645
Judicial Administration:				
Courts:				
Circuit court	\$ 74,464	\$ 74,464	\$ 62,864	\$ 11,600
General district court	13,000	13,000	16,659	(3,659)
Juvenile and domestic relations court	14,750	14,750	6,663	8,087
Clerk of the circuit court	301,506	305,838	292,838	13,000
Sheriff - courts	646,554	646,790	603,917	42,873
Total Courts	\$ 1,050,274	\$ 1,054,842	\$ 982,941	\$ 71,901

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2004 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Commonwealth Attorney:				
Commonwealth attorney	\$ 327,904	\$ 347,510	\$ 329,404	\$ 18,106
Victim witness program	70,138	68,788	60,351	8,437
Total Commonwealth attorney	\$ 398,042	\$ 416,298	\$ 389,755	\$ 26,543
Total judicial administration	\$ 1,448,316	\$ 1,471,140	\$ 1,372,696	\$ 98,444
Public Safety:				
Law Enforcement and Traffic Control:				
Police department	\$ 3,090,915	\$ 3,221,558	\$ 3,304,754	\$ (83,196)
Transportation safety commission	1,500	1,500	1,203	297
E-911 communication center	240,483	240,483	231,884	8,599
Total law enforcement and traffic control	\$ 3,332,898	\$ 3,463,541	\$ 3,537,841	\$ (74,300)
Fire and Rescue Services:				
Fire services	\$ 1,411,381	\$ 1,565,018	\$ 1,562,149	\$ 2,869
Emergency medical services	85,804	108,973	108,037	936
Total fire and rescue services	\$ 1,497,185	\$ 1,673,991	\$ 1,670,186	\$ 3,805
Correction and Detention:				
Sheriff -corrections	\$ 2,037,811	\$ 2,050,091	\$ 1,961,184	\$ 88,907
Sheriff -jail annex	170,170	170,170	129,755	40,415
Probation office	255,331	255,331	253,709	1,622
Total correction and detention	\$ 2,463,312	\$ 2,475,592	\$ 2,344,648	\$ 130,944
Inspections:				
Building and other	\$ 253,310	\$ 253,310	\$ 225,584	\$ 27,726
Other Protection:				
Safety	\$ 65,093	\$ 72,967	\$ 67,382	\$ 5,585
Total other protection	\$ 65,093	\$ 72,967	\$ 67,382	\$ 5,585
Total public safety	\$ 7,611,798	\$ 7,939,401	\$ 7,845,641	\$ 93,760
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Director of public works	\$ 71,656	\$ 72,863	\$ 72,538	\$ 325

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2004 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Highways, streets, bridges and sidewalks:				
Engineering	\$ 180,479	\$ 180,479	\$ 169,693	\$ 10,786
Street maintenance	1,388,685	1,388,685	1,360,646	28,039
Street marking and signs	201,314	201,314	174,971	26,343
Traffic signals	226,146	226,146	199,054	27,092
Street cleaning	366,642	366,642	318,906	47,736
Street construction	271,364	271,364	303,755	(32,391)
Thoroughfare construction	126,000	331,205	644,400	(313,195)
VDOT reserve	17,000	17,000	23,729	(6,729)
Uptown maintenance	46,236	46,236	44,846	1,390
City hall maintenance	311,956	311,956	348,971	(37,015)
Social services building maintenance	-	-	3,115	(3,115)
Public health center	10,000	10,000	3,145	6,855
Total highways, streets, bridges and sidewalks	\$ 3,145,822	\$ 3,351,027	\$ 3,595,231	\$ (244,204)
Total public works	\$ 3,217,478	\$ 3,423,890	\$ 3,667,769	\$ (243,879)
Mental Health and Mental Retardation:				
Chapter X board	\$ 48,678	\$ 48,678	\$ 48,678	\$ -
Welfare/Social Services:				
Regional social services board	\$ 255,570	\$ 255,570	\$ 255,570	\$ -
Total welfare/social services	\$ 255,570	\$ 255,570	\$ 255,570	\$ -
Total health and welfare	\$ 304,248	\$ 304,248	\$ 304,248	\$ -
Education:				
Contributions to community colleges	\$ 14,731	\$ 14,731	\$ 14,731	\$ -
Contributions to School Board Component Unit	6,863,066	6,863,066	6,862,967	99
Total education	\$ 6,877,797	\$ 6,877,797	\$ 6,877,698	\$ 99
Parks, Recreation, and Cultural:				
Parks and recreation				
Leisure services	\$ 150,534	\$ 152,917	\$ 189,949	\$ (37,032)
Park maintenance	245,809	249,149	233,031	16,118
Hooker field	74,936	74,936	34,779	40,157
Senior center	138,833	144,387	148,855	(4,468)
Armory	47,888	47,888	53,828	(5,940)
Total parks and recreation	\$ 658,000	\$ 669,277	\$ 660,442	\$ 8,835
Library:				
Regional library	288,336	288,336	309,487	(21,151)
Total parks, recreation and cultural	\$ 946,336	\$ 957,613	\$ 969,929	\$ (12,316)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2004 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Community Development:				
Planning and Community Development:				
Economic development	\$ 296,732	\$ 296,732	\$ 268,399	\$ 28,333
Housing / community development	91,114	91,114	77,651	13,463
Miscellaneous development expenses	273,004	273,004	115,080	157,924
Planning and zoning	17,350	17,350	2,685	14,665
Contributions to local organizations	301,790	309,540	307,191	2,349
Total planning and community development	<u>\$ 979,990</u>	<u>\$ 987,740</u>	<u>\$ 771,006</u>	<u>\$ 216,734</u>
Cooperative Extension Program:				
Horticulture and family resources	\$ 9,000	\$ 9,000	\$ 9,000	\$ -
Total community development	<u>\$ 988,990</u>	<u>\$ 996,740</u>	<u>\$ 780,006</u>	<u>\$ 216,734</u>
Debt service:				
Principal retirement	\$ 184,375	\$ 184,375	\$ 184,375	\$ -
Interest and other debt costs	36,350	36,350	36,449	(99)
Total debt service	<u>\$ 220,725</u>	<u>\$ 220,725</u>	<u>\$ 220,824</u>	<u>\$ (99)</u>
Total General Fund	<u>\$ 24,961,007</u>	<u>\$ 25,440,314</u>	<u>\$ 25,126,926</u>	<u>\$ 313,388</u>
Special Revenue Funds:				
City Grants Fund:				
Health and Welfare:				
Comprehensive services	\$ -	\$ -	\$ 257,720	\$ (257,720)
Planning and Community Development:				
Community development block grant	\$ 855,444	\$ 899,579	\$ 288,515	\$ 611,064
Indoor plumbing program	296,218	296,218	75,313	220,905
Total planning and community development	<u>\$ 1,151,662</u>	<u>\$ 1,195,797</u>	<u>\$ 363,828</u>	<u>\$ 831,969</u>
Total City Grants Fund	<u>\$ 1,151,662</u>	<u>\$ 1,195,797</u>	<u>\$ 621,548</u>	<u>\$ 574,249</u>
Housing Choice Fund:				
Planning and Community Development:				
Housing choice voucher program	\$ 2,018,885	\$ 2,018,885	\$ 1,853,332	\$ 165,553
Total Housing Choice Fund	<u>\$ 2,018,885</u>	<u>\$ 2,018,885</u>	<u>\$ 1,853,332</u>	<u>\$ 165,553</u>
Total Special Revenue Funds	<u>\$ 3,170,547</u>	<u>\$ 3,214,682</u>	<u>\$ 2,474,880</u>	<u>\$ 739,802</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2004 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Capital Project Funds:				
Capital Reserve Fund:				
Capital outlays:				
Tools and equipment	\$ 26,800	\$ 98,044	\$ 91,948	\$ 6,096
Communications equipment	121,484	121,484	120,076	1,408
Motor vehicles	182,441	345,622	304,824	40,798
ADP equipment	94,717	167,055	160,633	6,422
Total capital outlays	\$ 425,442	\$ 732,205	\$ 677,481	\$ 54,724
Capital projects:				
Physical plant expansion	\$ 88,000	\$ 88,000	\$ 95,181	\$ (7,181)
Other capital projects	108,900	112,741	15,251	97,490
Total capital projects	\$ 196,900	\$ 200,741	\$ 110,432	\$ 90,309
Debt service:				
Principal retirement	\$ 75,000	\$ 1,020,000	\$ 1,020,000	\$ -
Interest and other debt costs	87,575	177,212	177,212	-
Total debt service	\$ 162,575	\$ 1,197,212	\$ 1,197,212	\$ -
Total Capital Reserve Fund	\$ 784,917	\$ 2,130,158	\$ 1,985,125	\$ 145,033
Meals Tax Fund:				
General Government Administration:				
Meals tax administration	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
Debt service:				
Principal retirement	\$ 701,964	\$ 701,964	\$ 701,964	\$ -
Interest and other debt costs	395,075	395,075	395,075	-
Total debt service	\$ 1,097,039	\$ 1,097,039	\$ 1,097,039	\$ -
Total Meals Tax Fund	\$ 1,132,229	\$ 1,132,229	\$ 1,132,229	\$ -
Total Capital Project Funds	\$ 1,917,146	\$ 3,262,387	\$ 3,117,354	\$ 145,033
Grand Total Expenditures - Primary Government	\$ 30,048,700	\$ 31,917,383	\$ 30,719,160	\$ 1,198,223

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2004 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit - School Board				
School Operating Fund:				
Education:				
Instruction	\$ 13,357,652	\$ 14,484,613	\$ 14,081,623	\$ 402,990
Administration, attendance and health	3,054,065	3,206,785	3,027,030	179,755
Pupil transportation	594,598	600,228	645,185	(44,957)
Operation and maintenance of school plant	2,284,780	2,470,342	2,266,380	203,962
Total operating costs	<u>\$ 19,291,095</u>	<u>\$ 20,761,968</u>	<u>\$ 20,020,217</u>	<u>\$ 741,751</u>
Total School Operating Fund	<u>\$ 19,291,095</u>	<u>\$ 20,761,968</u>	<u>\$ 20,020,217</u>	<u>\$ 741,751</u>
School Cafeteria Fund:				
Education:				
School food services	<u>\$ 1,087,234</u>	<u>\$ 1,087,234</u>	<u>\$ 932,723</u>	<u>\$ 154,511</u>
School Grants Fund:				
Education:				
Instruction costs	<u>\$ -</u>	<u>\$ 2,178,183</u>	<u>\$ 1,808,577</u>	<u>\$ 369,606</u>
Grand Total Expenditures - Component Unit - School Board	<u>\$ 20,378,329</u>	<u>\$ 24,027,385</u>	<u>\$ 22,761,517</u>	<u>\$ 1,265,868</u>

Statistical Tables

CITY OF MARTINSVILLE, VIRGINIAGovernment-Wide Expenses by Function
Last Two Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Recreation and Cultural
2002-03	\$ 2,810,467	\$ 1,394,465	\$ 7,793,368	\$ 3,268,790	\$ 486,640	\$ 8,464,870	\$ 989,475
2003-04	2,743,168	1,351,523	8,167,425	3,558,497	560,092	7,849,055	984,188

Table 1

	Community Development	Interest on Debt	Electric	Water	Sewer	Landfill	Total
\$	3,481,450	\$ 437,490	\$ 7,860,760	\$ 1,597,226	\$ 1,934,362	\$ 1,485,234	\$ 42,004,597
	3,309,836	502,572	7,880,557	1,630,847	2,016,250	1,913,828	42,467,838

CITY OF MARTINSVILLE, VIRGINIA

Government-Wide Revenues

Last Two Fiscal Years

Fiscal Year	Program Revenues		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
2002-03	\$ 18,617,682	\$ 7,515,844	\$ 1,342,032
2003-04	19,105,147	8,613,003	139,992

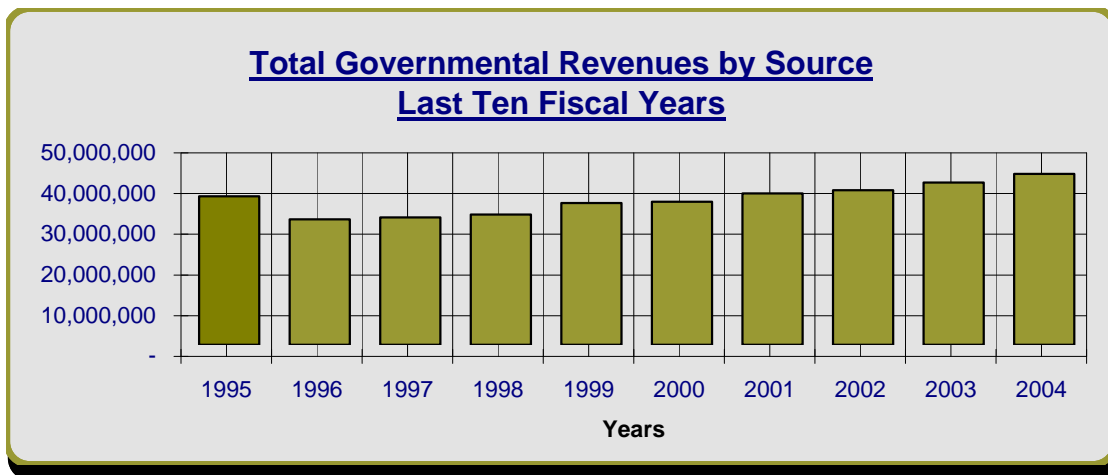
Table 2

General Revenues						
General Property Taxes	Other Local Taxes	Commonwealth of Virginia Non-Categorical Aid	Revenues from the Use of Money & Property	Miscellaneous	Total	
\$ 6,747,760	\$ 6,887,937	\$ 774,356	\$ 151,935	\$ 259,880	\$ 42,297,426	
7,303,536	7,112,440	741,465	75,751	340,160	43,431,494	

CITY OF MARTINSVILLE, VIRGINIA

General Government Revenues by Source (1), (2)
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Property Taxes	Other Local Taxes	Permit Privilege Fees & Regulatory Licenses	Fines & Forfeitures	Revenues from the Use of Money & Property	Charges for Services
1995	\$ 6,615,957	\$ 4,981,630	\$ 108,890	\$ 163,427	\$ 6,869,288	\$ 500,774
1996	6,776,450	5,653,788	15,395	209,863	1,027,754	514,184
1997	6,929,431	5,866,852	17,652	213,765	958,325	849,872
1998	7,225,353	6,129,277	27,982	202,332	726,311	860,789
1999	7,312,654	6,282,372	33,552	197,292	795,555	874,083
2000	6,583,181	6,162,491	18,679	145,992	973,942	686,792
2001	7,372,892	6,227,663	17,024	201,585	674,472	538,333
2002	6,374,432	6,518,345	13,360	214,765	621,218	572,599
2003	6,754,405	6,887,937	101,779	188,946	618,298	610,566
2004	7,288,727	7,112,440	69,393	221,076	494,706	585,490



(1) Includes revenues of the Governmental Funds of the Primary Government and its discretely presented Component Unit School Board.

(2) The General Fund contributions to the Component Unit School Board are not included.

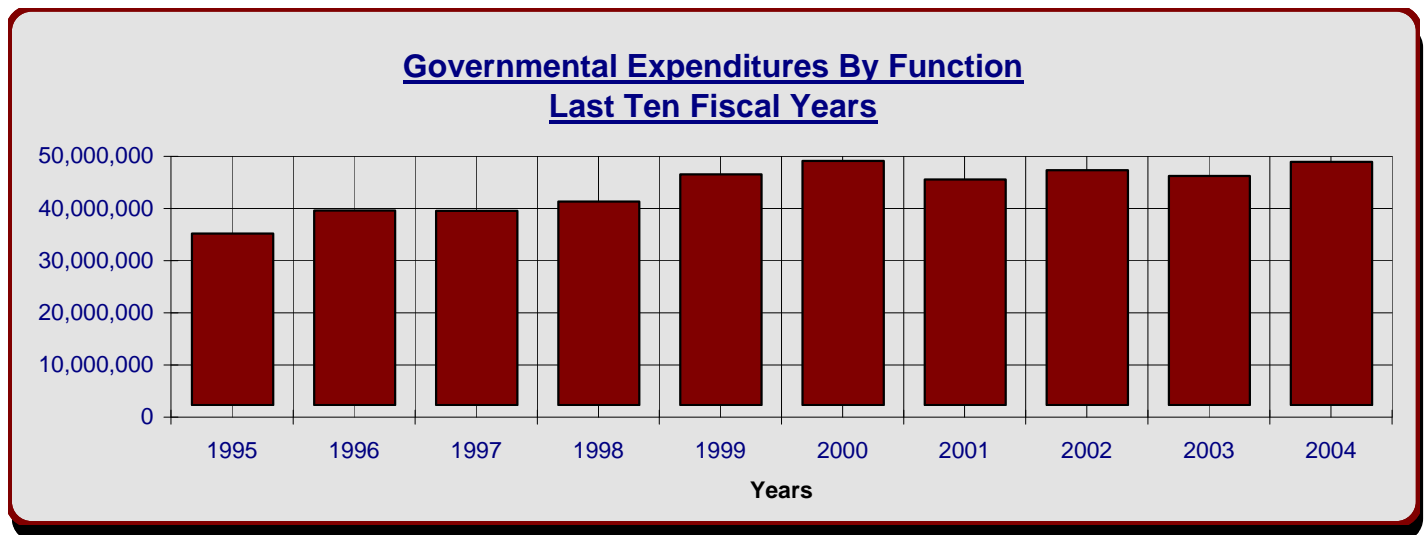
Table 3

	Miscell- aneous	Recovered Costs	Inter- govern- mental	Total
\$	543,862	\$ 892,409	\$ 15,807,412	\$ 36,483,649
	1,184,441	530,850	14,910,038	30,822,763
	643,564	469,944	15,364,538	31,313,943
	494,622	562,993	15,746,475	31,976,134
	614,087	655,743	18,094,451	34,859,789
	758,135	766,081	19,007,401	35,102,694
	808,634	819,424	20,527,650	37,187,677
	488,889	940,455	22,246,185	37,990,248
	333,613	849,339	23,504,759	39,849,642
	484,468	947,939	24,750,070	41,954,309

CITY OF MARTINSVILLE, VIRGINIA

General Government Expenditures by Function (1), (2) Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Adminis- tration	Judicial Adminis- tration	Public Safety	Public Works	Health and Welfare	Education
1995	\$ 1,953,183	\$ 923,927	\$ 5,384,376	\$ 3,017,788	\$ 3,816,463	\$ 14,966,954
1996	2,268,140	922,737	6,201,816	2,670,523	1,826,442	15,555,188
1997	2,318,569	1,014,527	6,186,934	2,828,856	1,889,267	17,020,651
1998	2,399,075	1,183,001	6,895,989	2,582,484	802,053	17,336,053
1999	2,818,717	1,489,784	7,703,106	2,834,361	967,745	19,250,708
2000	3,412,307	1,532,636	7,665,532	2,492,734	897,445	20,577,487
2001	2,806,251	1,755,428	7,529,991	3,203,106	692,418	20,785,714
2002	2,827,411	1,585,234	7,779,779	3,266,630	613,511	21,045,643
2003	2,956,254	1,418,241	7,678,200	3,251,535	497,656	21,272,297
2004	3,123,305	1,372,696	7,845,641	3,667,769	561,968	22,776,248



(1) Includes current expenditures of the Governmental Funds of the Primary Government and its discretely presented Component Unit School Board.

(2) The General Fund contributions to the Component Unit School Board are not included.

Table 4

	Recrea- tion and Cultural	Community Develop- ment	Non depart- mental	Capital Outlays / Projects	Debt Service	Total
\$	582,259	\$ 1,165,594	\$ 809,153	\$ -	\$ 283,353	\$ 32,903,050
	648,164	1,985,338	72,182	4,611,462	552,086	37,314,078
	609,157	1,663,019	67,583	3,153,271	517,542	37,269,376
	612,875	2,220,260	239,874	4,051,829	666,701	38,990,194
	768,054	1,896,216	56,990	5,685,305	758,192	44,229,178
	938,878	1,335,416	273,423	6,687,375	992,269	46,805,502
	925,040	1,735,267	212,975	2,637,869	961,970	43,246,029
	966,334	2,324,440	132,802	3,040,542	1,455,130	45,037,456
	949,304	3,364,924	120,008	930,203	1,501,205	43,939,827
	969,929	2,997,166	-	787,913	2,515,075	46,617,710

Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Years Ending June 30,	Real Estate	Personal Property	Machinery and Tools	Public Service Corporations	Total
1995	\$ 483,949,585	\$ 54,234,564	\$ 59,074,742	\$ 24,075,144	\$ 621,334,035
1996	484,467,800	71,685,524	61,610,086	26,575,957	644,339,367
1997	489,100,450	85,210,947	54,173,499	23,425,736	651,910,632
1998	485,331,000	79,598,067	49,009,925	23,304,634	637,243,626
1999	483,149,200	85,925,407	45,790,992	23,191,676	638,057,275
2000	492,377,750	87,198,592	50,918,879	26,135,117	656,630,338
2001	499,376,500	87,362,958	47,211,356	27,313,555	661,264,369
2002	500,132,200	91,886,053	17,253,822	27,821,178	637,093,253
2003	531,125,500	89,785,700	13,854,533	27,763,786	662,529,519
2004	556,169,600	94,124,537	13,754,159	29,719,298	693,767,594

Source: Commissioner of the Revenue

Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Years Ending June 30,	Real Estate		Personal Property		Machinery and Tools		Public Service	
							Real	Personal
1995	\$	0.84	\$	2.25	\$	1.85	\$ 0.84	\$ 0.84
1996		0.84		1.92		1.85	0.84	1.92
1997		0.84		1.92		1.85	0.84	1.92
1998		0.94		1.92		1.85	0.94	1.92
1999		0.94		1.92		1.85	0.94	1.92
2000		0.94		1.92		1.85	0.94	1.92
2001		0.94		1.92		1.85	0.94	1.92
2002		0.94		1.92		1.85	0.94	1.92
2003		0.94		1.92		1.85	0.94	1.92
2004		0.94		2.30		1.85	0.94	2.30

(1) Per \$100 of assessed value

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Total (1) Tax Levy	Current Tax (1) Collections	Percent of Levy Collected	Delinquent (1) Tax (2) Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding (1) Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1995	\$ 6,534,695	\$ 6,360,796	97.34%	\$ 255,161	\$ 6,615,957	101.24%	\$ 631,352	9.66%
1996	6,847,293	6,484,461	94.70%	159,670	6,644,131	97.03%	655,816	9.58%
1997	6,988,863	6,721,278	96.17%	58,536	6,779,814	97.01%	632,399	9.05%
1998	7,245,084	6,827,121	94.23%	246,449	7,073,570	97.63%	667,413	9.21%
1999	7,294,688	6,950,292	95.28%	263,040	7,213,332	98.88%	684,915	9.39%
2000	7,525,350	6,301,132	83.73%	320,798	6,621,930	87.99%	1,466,633	19.49%
2001	7,546,250	6,596,153	87.41%	954,232	7,550,385	100.05%	923,231	12.23%
2002	7,104,697	6,899,049	97.11%	107,345	7,006,394	98.62%	845,663	11.90%
2003	7,269,766	6,925,121	95.26%	355,301	7,280,422	100.15%	729,216	10.03%
2004	7,984,936	7,554,156	94.61%	236,605	7,790,761	97.57%	751,746	9.41%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

Ratio of Net General Obligation Bonded Debt to Assessed Value
And Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Population (1)	Assessed Value (in thousands)(2)	Net Bonded Debt	Ratio of Net General Obligation Debt to Assessed Value	Net Bonded Debt per Capita
1995	16,100	\$ 621,334,035	\$ 1,418,874	0.23%	\$ 88
1996	16,000	644,339,367	5,990,212	0.93%	374
1997	15,800	651,910,632	5,773,866	0.89%	365
1998	15,700	637,243,626	5,465,708	0.86%	348
1999	15,500	638,057,275	16,802,217	2.63%	1,084
2000	15,500	656,630,338	16,493,362	2.51%	1,064
2001	15,416	661,264,369	16,069,098	2.43%	1,042
2002	15,600	637,093,253	15,244,377	2.39%	977
2003	15,300	662,529,519	14,414,147	2.18%	942
2004	15,200	693,767,594	13,580,355	1.96%	893

(1) Tayloe Murphy Institute at the University of Virginia.

(2) From Table 5

Ratio of Annual Debt Service Expenditures for General Bonded
Debt (1) to Total General Governmental Expenditures
Last Ten Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
1994-95	\$ 207,613	\$ 75,740	\$ 283,353	\$ 32,903,050	0.86%
1995-96	225,199	326,887	552,086	37,314,078	1.48%
1996-97	212,045	305,497	517,542	37,269,376	1.39%
1997-98	420,772	245,929	666,701	38,990,194	1.71%
1998-99	380,543	377,649	758,192	44,229,178	1.71%
1999-00	470,791	521,478	992,269	46,805,502	2.12%
2000-01	595,143	366,827	961,970	43,246,029	2.22%
2001-02	889,963	565,167	1,455,130	45,037,456	3.23%
2002-03	951,135	550,070	1,501,205	43,939,827	3.42%
2003-04	1,906,339	608,736	2,515,075	46,617,710	5.40%

(1) Excludes bond issuance and other costs.

(2) Includes General and Capital Project Funds of the Primary Government and its discretely presented component unit.

Computation of Direct and Overlapping Bonded Debt
At June 30, 2004

Direct: (1)				
City of Martinsville	\$	<u>13,580,355</u>	<u>100.00%</u>	\$ <u>13,580,355</u>

(1) Includes general obligation bonded debt.

The City of Martinsville has no overlapping debt.

CITY OF MARTINSVILLE, VIRGINIA

Property Value and Construction

Last Ten Fiscal Years

Fiscal Year	Residential Construction		Commercial Construction		Miscellaneous Construction	
	Permits	Valuation	Permits	Valuation	Permits	
1994-95	31	\$ 1,462,300	6	\$ 1,004,000	262	
1995-96	95	1,943,208	28	10,401,355	170	
1996-97	83	2,404,596	45	4,970,631	156	
1997-98	11	535,255	17	5,129,724	432	
1998-99	135	2,322,032	43	11,141,214	428	
1999-00	127	1,737,105	79	13,126,079	426	
2000-01	152	2,356,106	53	4,183,968	430	
2001-02	121	1,624,548	46	3,623,433	349	
2002-03	92	1,290,531	48	1,640,831	359	
2003-04	56	1,138,217	41	2,080,629	326	

1 Source: Martinsville City Community Development Department

2 Source: Commissioner of the Revenue / Circuit Court Clerk's Office

Table 11

Valuation	Residential (2)	Commercial (2)	Industrial (2)	Multi- Family (2)	Non-Taxable (2)
\$ 3,142,873	\$ 283,119,730	\$ 115,131,700	\$ 51,608,530	\$ 33,102,850	\$ 100,984,250
2,793,485	287,416,000	114,217,900	50,384,700	32,449,200	100,551,650
2,131,959	288,669,900	116,825,800	51,218,800	32,385,950	101,357,750
11,446,558	290,901,400	113,881,310	48,402,800	32,145,500	106,122,000
4,992,503	292,499,550	114,972,800	43,594,200	32,082,650	106,668,950
9,602,951	300,314,000	117,006,000	42,907,200	32,150,550	108,776,000
4,079,357	300,696,900	123,366,650	42,941,700	32,371,250	110,076,400
2,317,287	302,817,300	127,558,100	35,706,200	34,050,600	113,087,700
1,671,068	303,870,300	156,274,200	35,624,700	35,356,300	86,625,600
1,754,129	312,978,800	178,091,500	26,919,000	38,180,300	86,011,800

Demographic Statistics

Last Ten Fiscal Years

Year	Population (1)	City Per Capita Income (2)	School Enrollment (3)	Unemployment Rate (4)
1994-95	16,100	\$ 18,364	2,803	9.8%
1995-96	16,000	18,754	2,817	9.1%
1996-97	15,800	19,776	2,818	8.4%
1997-98	15,700	20,410	2,747	5.3%
1998-99	15,500	20,531	2,661	5.4%
1999-00	15,500	21,154	2,621	10.0%
2000-01	15,416	21,447	2,676	12.2%
2001-02	15,600	17,251	2,655	11.2%
2002-03	15,300	17,251	2,673	16.1%
2003-04	15,200	n/a	2,593	13.9%

(1) US Census Bureau and the Weldon Cooper Center for Public Service

(2) Virginia Employment Commission

(3) School Board Office

(4) Virginia Employment Commission

n/a - information not available

Principal Taxpayers

At June 30, 2004

Taxpayer	Type of Business	Assessed Valuation	% of Total Assessed Valuation
PHC - Martinsville Inc.	Hospital	\$ 28,937,000	4.17%
Liberty Fair Va. LP	Shopping mall	28,802,000	4.15%
Central Telephone Company of Va.	Utility	17,488,010	2.52%
Lester Lumber Co. Inc.	Commercial	13,672,500	1.97%
Blue Ridge Nursing Home	Medical	8,511,900	1.23%
Commonwealth Blvd. Associates, LLC	Commercial	4,737,400	0.68%
Hooker Furniture Corporation	Commercial / Industrial	3,054,940	0.44%
Appalachian Power Company	Utility	2,974,170	0.43%
R C Realty Corp.	Commercial	2,668,400	0.38%
Rebkee Partners Martinsville, LLC	Commercial	2,603,900	0.38%
Totals		\$ 113,450,220	16.35%

Miscellaneous Statistics

At June 30, 2004

Date of Incorporation	1940
Form of Government	City Council/ City Manager
Area in square miles	11
Number of street lights	4,027
Fire Protection	
Number of stations	2
Number of fire personnel and officers	38
Number of calls answered	1,787
Number of inspections conducted	299
Police Protection	
Number of stations	1
Number of police personnel and officers	58
Number of patrol units	10
Number of law violations:	
Physical arrests	1,784
Traffic violations	4,454
Recreation and Culture	
Number of parks and recreation facilities	7
Number of libraries	1
Number of community centers	1
Swimming pools	0
Employees at June 30, 2004	
General government (includes public safety)	436
School division (includes teachers)	560
Sewerage Systems	
Miles of sanitary sewers	140
Miles of storm sewers	1
Number of treatment plants	1
Number of service connections	7,000
Daily average treatment in gallons	4.5 MGD
Water Systems	
Miles of water mains	120
Number of fire hydrants	545
Number of service connections	7,500
Daily average consumption in gallons	3.0 MGD
Maximum daily capacity of plant in gallons	10.0 MGD
Electric Distribution Systems	
Miles of service	100
Number of distribution systems	1
Facilities and services not included in the primary government	
Number of elementary schools	5
Number of elementary school instructors	97
Number of secondary schools	1
Number of secondary school instructors	129
Facilities and services not included in the reporting entity	
Hospitals:	
Number of hospitals	1
Number of patient beds	154

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

***Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards***

**To The Honorable Members of City Council
City of Martinsville
Martinsville, Virginia**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2004, which collectively comprise the City of Martinsville, Virginia's basic financial statements and have issued our report thereon dated September 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Specifications for Audits of Counties, Cities and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Martinsville, Virginia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Martinsville, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted other matters that we have reported to management in a separate letter dated September 2, 2004.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 2, 2004

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**To The Honorable Members of City Council
City of Martinsville
Martinsville, Virginia**

Compliance

We have audited the compliance of the City of Martinsville, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. The City of Martinsville, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Martinsville, Virginia's management. Our responsibility is to express an opinion on the City of Martinsville, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Martinsville, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Martinsville, Virginia's compliance with those requirements.

In our opinion, the City of Martinsville, Virginia, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Martinsville, Virginia is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Martinsville, Virginia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 2, 2004

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Units
Year Ended June 30, 2004

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
PRIMARY GOVERNMENT:		
<u>DEPARTMENT OF TRANSPORTATION:</u>		
<u>Pass through payments:</u>		
Department of Motor Vehicles:		
State and Community Highway Safety (Section 402 Grants) Alcohol Traffic		
National highway traffic safety	20.000	\$ 11,095
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>		
<u>Direct payments:</u>		
Housing choice	14.871	\$ 1,856,207
Moderate rehabilitation	14.856	145,053
<u>Pass through payments:</u>		
Department of Housing and Community Development:		
Community development block grant	14.228	159,317
Home investment partnerships program	14.239	58,200
Total Department of Housing and Community Development		\$ 2,218,777
<u>DEPARTMENT OF LABOR:</u>		
<u>Pass through payments:</u>		
Governor's Employment and Training Department:		
Senior Community Services Employment Program	17.235	\$ 24,515
<u>DEPARTMENT OF JUSTICE:</u>		
<u>Direct payments:</u>		
COPS technology grant	16.710	\$ 24,066
Bullet proof vest program	16.000	1,159
Local law enforcement block grants	16.592	15,353
State criminal alien assistance program	16.606	2,637
<u>Pass through payments:</u>		
Department of Criminal Justice Services:		
Drug control and system improvement	16.579	21,887
Total Department of Justice		\$ 65,102
<u>DEPARTMENT OF HOMELAND SECURITY:</u>		
<u>Direct payments:</u>		
Fire prevention and safety grants	97.044	\$ 71,244
<u>Pass through payments:</u>		
Department emergency management:		
Disaster relief public assistance	97.036	185,312
State homeland security grant program	97.004	111,670
Total Department of Homeland Security		\$ 368,226
Total Primary Government		\$ 2,687,715

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Units
Year Ended June 30, 2004 (Continued)

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
COMPONENT UNIT-SCHOOL BOARD:		
<u>DEPARTMENT OF AGRICULTURE:</u>		
<u>Pass through payments:</u>		
Department of Education:		
Food distribution	10.555	\$ 64,891
Department of Education:		
National school breakfast program	10.553	94,781
National school lunch program	10.555	445,317
Total Department of Agriculture		\$ 604,989
<u>DEPARTMENT OF LABOR:</u>		
<u>Direct payments:</u>		
Workforce investment act - adult program	17.258	\$ 6,000
Workforce investment act - youth activities	17.259	65,227
ROTC Instruction	17.000	39,090
<u>Pass through payments:</u>		
Department of Education:		
School to work transition project	17.261	26,626
Total Department of Labor		\$ 136,943
<u>DEPARTMENT OF EDUCATION:</u>		
<u>Direct payments:</u>		
English language acquisition	84.365	\$ 6,030
<u>Pass through payments:</u>		
Department of Education:		
Education Consolidation and Improvement Act of 1981:		
Title 1:		
Financial assistance to meet special educational needs of disadvantaged children - program operated by local education agencies (2E004500, 2E004511, 3E005820)	84.010	676,349
Even start	84.213	226,604
Comprehensive school reform	84.332	125,554
Title VI-B:		
Assistance to states for education of handicapped children - preschool and school programs (1E002570, 3E001110)	84.027	564,323
Vocational Education:		
Basic grants to states (3E001311)	84.048	43,110

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Units
Year Ended June 30, 2004 (Continued)

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
COMPONENT UNIT-SCHOOL BOARD: (Continued)		
<u>DEPARTMENT OF EDUCATION: (Continued)</u>		
<u>Pass through payments: (Continued)</u>		
Special Education:		
Preschool	84.173	14,532
Special Projects:		
Drug-free schools and communities (2E004617)	84.186	31,790
Title IV part B - after school learning center	84.287	260,604
Reading first	84.357	227,434
Improving teacher quality	84.367	190,856
Title VI - Rural and low income schools	84.358	82,685
Technology challenge grant	84.318	240,786
Innovative education program strategies	84.298	21,850
Class size reduction	84.340	400
Total Department of Education		\$ 2,712,907
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:</u>		
<u>Direct payments:</u>		
NASA grant	43.001	\$ 125,895
Total Component Unit School Board		\$ 3,580,734
Total Federal Assistance		\$ 6,268,449

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Martinsville, Virginia and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No
Identification of major programs:	

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.555	National school lunch program - Nutrition Cluster
10.553	National school breakfast program - Nutrition Cluster
10.555	Food distribution - Nutrition Cluster
84.027	Title VI-B - Special Education Cluster (IDEA)
84.173	Special education preschool grant - Special Education
84.010	Title I
84.298	Innovative Education Program Strategies
14.871	Housing Choice

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.